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**United Nations Office for Project Services**

# Financial report and audited financial statements

**for the year ended 31 December 2016**

**and**

# Report of the Board of Auditors

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*Note*

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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# Letters of transmittal

## Letter dated 31 March 2017 from the Executive Director and the Chief Financial Officer and Comptroller of the United Nations Office for Project Services addressed to the Chair of the Board of Auditors

The United Nations Office for Project Services (UNOPS) hereby submits its annual financial statements for the year ended 31 December 2016.

We acknowledge that:

- Management is responsible for the integrity and objectivity of the financial information included in these financial statements.
- The financial statements have been prepared in accordance with the International Public Sector Accounting Standards and include certain amounts that are based on management's best estimates and judgments.
- Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that, overall, policies and procedures are implemented with an appropriate segregation of duties. UNOPS internal auditors continually review the accounting and control systems. Further improvements are being implemented in specific areas.
- Management provided the Board of Auditors and UNOPS internal auditors with full and free access to all accounting and financial records.
- The recommendations of the Board of Auditors and UNOPS internal auditors are reviewed by management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

We certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

(*Signed*) Grete **Faremo**
Executive Director

(*Signed*) Aïssa **Azzouzi**
Chief Financial Officer/Comptroller

## Letter dated 30 June 2017 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Office for Project Services for the year ended 31 December 2016.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

# Chapter I

## Report of the Board of Auditors on the financial statements: audit opinion

### Opinion

We have audited the financial statements of the United Nations Office for Project Services (UNOPS), which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended. as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

### Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNOPS, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information other than the financial statements and the auditor's report thereon

The Executive Director of UNOPS is responsible for the other information, which comprises the financial report for the year ended 31 December 2016, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as

management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of UNOPS to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate UNOPS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of UNOPS.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of UNOPS.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNOPS to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNOPS to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on other legal and regulatory requirements**

Furthermore, in our opinion, the transactions of the UNOPS that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the financial regulations and rules of UNOPS and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UNOPS.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

30 June 2017

# Chapter II
# Long-form report of the Board of Auditors

*Summary*

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office for Project Services (UNOPS) for the year ended 31 December 2016 and examined a range of managerial issues. The Board examined financial transactions and operations at UNOPS headquarters in Copenhagen and the field operations in Port-au-Prince, Panama City, Kathmandu and Phnom Penh, as well as the regional office in Bangkok.

**Opinion**

2. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNOPS as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

**Overall conclusion**

3. The financial position of UNOPS remains sound, but more could be done to plan the utilization of its operational reserves to support business development. UNOPS migrated to oneUNOPS, a new enterprise resource planning system, and took over investment and treasury functions, including the pay/bill function, from the United Nations Development Programme. While oneUNOPS integrated into one platform the collection of organizational data relating to various activities, there is scope to further utilize those data and develop a reliable management information system together with a suite of management reports. UNOPS made further improvements in its governance system by introducing a revised legislative framework and a new governance, risk and compliance framework. However, the proposed risk management framework, previously planned for implementation in July 2016, has remained a work in progress, and no risk registers have been established at the project, country, regional or organizational level under the new framework.

4. UNOPS has acknowledged that sustainable development is one of its strategic objectives. However, the mainstreaming of sustainability into its project life cycle must be further strengthened. UNOPS faces a unique challenge in working in an extremely vulnerable operational environment and needs to improve the headquarters oversight and monitoring of significantly decentralized field activities. Human resources management has scope for improvement in terms of developing policies and collecting data on inclusiveness and accessibility for persons with disabilities.

**Key findings**

5. UNOPS continued to deliver an overall surplus with respect to its operations. For the financial year 2016, its surplus was $31.28 million. Its operational reserves increased by $32.4 million to $131.6 million, exceeding by $110.9 million the minimum level of $20.7 million set by the Executive Board. While UNOPS management has previously outlined its commitment to using these reserves for future projects that support its goals, no firm plans have yet been established in that regard.

6. The overall financial health of UNOPS is robust. While its current liabilities continue to exceed its current assets, placing pressure on liquidity, UNOPS has sufficient financial resources to meet its total liabilities, which include obligations to discharge project agreements over future years.

**Governance structure**

7. Directors at headquarters are engaged in policymaking and putting in place systems and standards. However, the related aspects of obtaining management information and reports that permit managerial oversight at all levels were found wanting. There was no centralized system for reporting project quality risks and incidents. Even in the new governance risk and compliance framework for 2016, no clear role was set out for headquarters directors.

8. Integrated Practice Advice and Support was established in 2013 to provide consistent professional advice and solutions regarding the everyday implementation challenges faced by field officials in the areas of procurement, legal affairs, finance, human resources and administration. Integrated Practice Advice and Support also provided an interface between headquarters and field offices. The Board noted that project management was not included in the remit of Integrated Practice Advice and Support. The Board also observed backlogs in obtaining feedback from headquarters groups on recommendations of Integrated Practice Advice and Support.

**Implementation of oneUNOPS**

9. UNOPS implemented oneUNOPS with effect from 1 January 2016. The Board noted that, while there had been a marked improvement in the coverage of UNOPS processes and functionalities, the coverage of some critical functionalities remained ongoing, such as the mechanism for reporting project management-related risk and compliance issues, and the process of establishing interfaces between oneUNOPS and the online banking systems. The fraud risk assessment recommendations on oneUNOPS, issued by the Internal Audit and Investigations Group in 2016, had been only partially implemented.

**Project management**

10. A sample study by the Administration of the reasons for the delays in the implementation of projects highlighted that planning issues, delays in construction and other internal reasons had been contributing factors. Furthermore, complete information about a significant number of projects was not available at UNOPS headquarters.

**Sustainable infrastructure and project management**

11. The Board noted that, despite a considerable revenue surplus, UNOPS had not built a portfolio management model to help shape the global portfolio to maintain financial viability without compromising on its commitment to contribute to the sustainable development of countries. Sustainability mainstreaming was found to be deficient at various stages of the project life cycle, namely, engagement acceptance, project initiation, quality assurance and project closure. Furthermore, the process of results-based reporting did not capture data on the sustainability benefits delivered by each project.

**Implementation of Sustainable Development Goals**

12. During its midterm assessment of its strategic plan for the period 2014-2017, UNOPS laid down a framework on how it would support the 2030 Agenda for Sustainable Development through the implementation of Sustainable Development Goals. The assessment of its contributions to various Sustainable Development Goals suggested that four of the Goals (3, 9, 11, and 16) accounted for approximately three quarters of total UNOPS delivery. UNOPS saw itself playing a supporting role with respect to the implementation of Sustainable Development Goals by Member States, as it was responsive to clients' needs and was demand-driven.

**Procurement activities**

13. The Board observed that vendor review with regard to sanctions remained a manual process and was not integrated with the United Nations Global Marketplace list. The supplier database available in the new enterprise resource planning system exhibited inconsistencies, and there was a need for clean-up. Despite the fact that those inconsistencies had been noted in early 2016, the data integrity issues relating to the database persisted.

14. There were cases in which the minimum prescribed solicitation time was not provided to bidders, which prevented them from making comprehensive offers and had an impact on the competitiveness of the procurement process.

**Human resources management**

15. UNOPS had developed a system of background checks for new recruits through an outsourced agency. However, such checks were not mandatory, being left to the discretion of the hiring manager. The Board noted that only in a negligible number of cases had background checks been carried out. There were no criteria or guidance for hiring managers on carrying out background checks or documenting justifications for not doing so.

16. No policy directives or data on workplace accessibility for disabled employees were available.

**Recommendations**

17. While detailed recommendations are set out in the present report, in summary, the Board recommends that UNOPS:

(a) **Establish a well-defined management reporting and monitoring structure and define the role of headquarters directors (practice leads) for each practice;**

(b) **Assess the feasibility of including the project management sphere in the remit of Integrated Practice Advice and Support;**

(c) **Review the role of Integrated Practice Advice and Support vis-à-vis the practice groups to enable the speedy implementation, where considered relevant by the practices, of advisories and solutions provided by Integrated Practice Advice and Support;**

(d) **Review the performance of oneUNOPS to determine whether all intended controls are in place and effectively working, whether the intended benefits of the new systems are being realized, and whether information system delivery components are adequately aligned with the intended business requirements, including management information reports;**

**(e) Review its project management information system, along with the transition to oneUNOPS, so that centralized information on project status, including extensions and reasons for delayed implementation, are captured for better management oversight;**

**(f) Build a portfolio management model to optimize the portfolio of delivery practices to ensure the maximization of sustainability considerations as well as its own financial viability;**

**(g) Incorporate sustainability targets and deliverables into the project initiation documents for mandatory screening and monitoring, measurement and reporting of sustainability contributions through engagement acceptance, quarterly assurance, project progress reports and project closure reports;**

**(h) Establish a standard procedure for sustainability results reporting at the output and outcome levels by capturing data through the business process, measured against predefined sustainability standard indicators, targets and deliverables;**

**(i) While finalizing its strategic plan for the period 2018-2021, consider aligning its long-term business strategies and delivery practices with the requirements of Sustainable Development Goals;**

**(j) Integrate the lists of sanctioned vendors contained in the other vendor databases with oneUNOPS;**

**(k) Review its existing standard operating procedures relating to vendor database management to ensure that it has a strong system of checks with defined formats for data, data validation and alerts regarding duplicates in the oneUNOPS system to enhance the quality of data sets;**

**(l) Comply with the Procurement Manual in respect of observing the number of days allowed for the submission of bids in order to provide vendors with a sufficient number of days to prepare and submit a bid;**

**(m) Finalize guidance for hiring managers on the conduct of background checks;**

**(n) Formulate policy directives and implementing instructions on the creation of an inclusive and accessible workplace for employees with disabilities;**

**(o) Endeavour to maintain data on employees with disabilities and complete an accessibility assessment of all its offices, digital platforms and processes as a matter of priority.**

| Key facts | |
|---|---|
| **$1.45 billion** | Total project services provided, $701.1 million as the principal and $744.7 million delivered on behalf of other organizations |
| **$31.3 million** | Net surplus achieved in the year ended 31 December 2016 |
| **$131.6 million** | Operational reserves at 31 December 2016, against a minimum level of reserves of $20.7 million as prescribed by the Executive Board |
| **$1.64 billion** | Total assets |
| **$1.51 billion** | Total liabilities |

## A. Mandate, scope and methodology

1. The United Nations Office for Project Services (UNOPS) helps people to build better lives and countries to achieve sustainable development. UNOPS is a demand-driven and self-financing organization without any assessed contributions from Member States and relies on the revenue that it earns from the implementation of projects and the provision of high-quality transactional and advisory services. It provides management services that contribute to peacebuilding, humanitarian and development operations of the United Nations system. UNOPS revenues are wholly dependent on fees generated by the provision of project services through three delivery practices: project management, procurement and infrastructure.

2. The Board of Auditors has audited the financial statements of UNOPS for the financial year ended 31 December 2016 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the financial regulations and rules of UNOPS as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNOPS as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the UNOPS governing body and whether they had been properly classified and recorded in accordance with the UNOPS financial regulations and rules.

4. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

5. The Board also reviewed UNOPS operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, with a focus on the performance of UNOPS with respect to sustainable infrastructure and project management. During the course of the audit, the Board visited UNOPS headquarters in Copenhagen, the Haiti operations centre, the Nepal operations centre, the Panama

operational hub, the Cambodia operational hub and the Asia regional office, including the Thailand operational hub. The Board also took note of work carried out by the UNOPS Internal Audit and Investigations Group to provide coordinated audit coverage.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The report was discussed with UNOPS management, whose views have been appropriately reflected.

## B. Follow-up to previous recommendations

7. Up to the year ended 31 December 2015, 37 recommendations of the Board were outstanding. The status of implementation of those recommendations is presented in table II.1.

Table II.1
**Status of implementation of recommendations**

| | *Fully implemented* | *Under implementation* | *Not implemented* | *Overtaken by events* |
|---|---|---|---|---|
| **Total** | **14** | **23** | **0** | **0** |
| Percentage | 38 | 62 | – | |

*Source:* Board of Auditors.

8. The Board noted that the rate of implementation of recommendations, at 38 per cent, was significantly lower than the 51 per cent reported during the previous year. The Board urges the Administration to work towards the implementation of the remaining recommendations. Details regarding the progress made in the implementation of all previous recommendations are contained in the annex to chapter II.

## C. Financial performance and management

### Financial results

9. In General Assembly decision 48/501, UNOPS was established as a separate, self-financing entity to provide capacity-building services, including project management, procurement and the management of financial resources. To cover its expenses, UNOPS charges clients fees for services rendered. In 2016, UNOPS reported a surplus of $31.3 million, representing 4.1 per cent of the expenditure of $769.9 million that it had incurred as a principal.[1] The surplus had increased from $14.3 million in 2015, representing 2.1 per cent of the expenditure of $671.5 million that UNOPS had incurred as a principal.

10. The surplus that UNOPS generates from its project activities is used to cover its central support costs. As shown in table II.2, since 2013, UNOPS has generated surpluses from its project activities ranging from $66.3 million to $86.7 million. During that period, UNOPS has generated a cumulative surplus of $52.5 million from its operating activities, with annual results ranging from a surplus of

[1] UNOPS undertakes activities both as a principal and as an agent. As a principal, UNOPS undertakes activities on its own behalf; as an agent, it undertakes activities on the behalf of partners.

$7.1 million to $20.1 million. The net surplus generated each year includes interest from cash and investments.

Table II.2
**Analysis of surpluses reported by the United Nations Office for Project Services**
(Thousands of United States dollars)

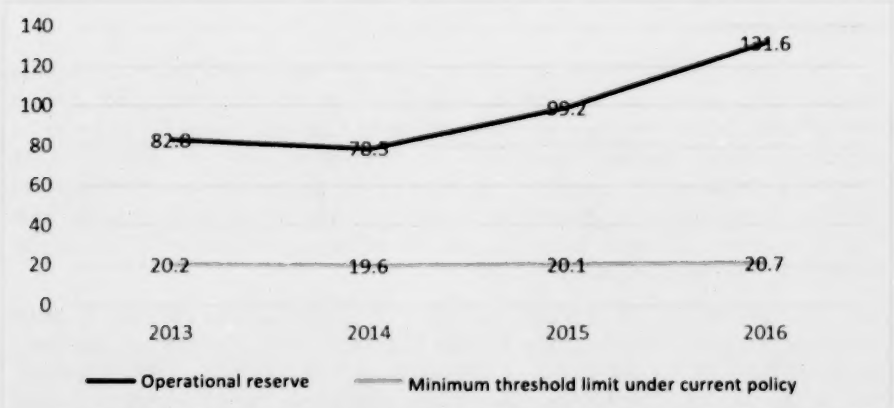
| | *2016* | *2015* | *2014* | *2013* |
|---|---|---|---|---|
| **Surplus from project activities**[a] | **86 701** | **87 168** | **66 299** | **72 200** |
| Miscellaneous and non-exchange revenue | 2 127 | 2 841 | 7 820 | 10 656 |
| Non-project expenses[b] | (68 767) | (78 259) | (66 975) | (69 359) |
| **Surplus from operations** | **20 061** | **11 750** | **7 144** | **13 497** |
| Net finance income | 11 219 | 2 585 | 2 779 | 1 225 |
| **Reported surplus** | **31 280** | **14 335** | **9 923** | **14 722** |

*Source*: UNOPS financial statements.
[a] Direct project revenue less direct project expenditures.
[b] Total expenditure less direct project expenditures.

### Operational reserves

11. In 2013, the Executive Board approved a policy to establish a minimum operational reserve, which is set at the equivalent of four months of the average management expenses for the previous three years. As at 31 December 2016, this equated to $20.7 million. The reported operational reserves as at 31 December 2016 were $131.6 million, which exceeded the minimum target set by $110.9 million (2015: $79.1 million). The reported surpluses have continued to contribute to a significant operational reserve.

Figure II.I
**Operational reserves as at 31 December 2016**
(Millions of United States dollars)




*Source*: UNOPS financial statements.

12. In its previous report (A/71/5/Add.11, chap. II), the Board had recommended that management reassess the approved minimum level of operational reserves in order to take into account actuarial gains and losses previously incurred and the

inclusion of property, plant and equipment, and consider how the reserve surplus might be utilized. The Board noted that a concept note had been approved setting out the implementation and monitoring of the funding of investment projects. However, the minimum level of surplus funds had yet to be reassessed.

**Financial management**

13. The Board has analysed the financial health of UNOPS using a range of key ratios, as set out in table II.3. As in previous years, current liabilities exceeded current assets; however, total assets exceeded total liabilities. Although liquidity was under some pressure, the overall financial position of UNOPS remained sound during the year.

Table II.3
**Financial ratios**

| *Description of ratio* | *31 December 2016* | *31 December 2015* | *31 December 2014* | *31 December 2013* |
|---|---|---|---|---|
| **Current ratio**[a]<br>Current assets: current liabilities | 0.35 | 0.85 | 0.63 | 0.73 |
| **Total assets: total liabilities**[b]<br>Assets: liabilities | 1.09 | 1.07 | 1.07 | 1.08 |
| **Cash ratio**[c]<br>Cash + short-term investments: current liabilities | 0.29 | 0.82 | 0.56 | 0.67 |
| **Quick ratio**[d]<br>Cash + short term investments + accounts receivable: current liabilities | 0.35 | 0.84 | 0.62 | 0.72 |
| **Project surplus (margin percentage)**[e]<br>Direct project revenue — direct project expenses | $86.7 million<br>(11 per cent) | $87.2 million<br>(12.8 per cent) | $66.3 million<br>(10.0 per cent) | $72.2 million<br>(10.2 per cent) |
| **Net surplus (margin percentage)**<br>Revenue — expenses | $31.3 million<br>(3.96 per cent) | $14.3 million<br>(2.1 per cent) | $9.9 million<br>(1.5 per cent) | $14.7 million<br>(2.1 per cent) |

*Source*: UNOPS financial statements.

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

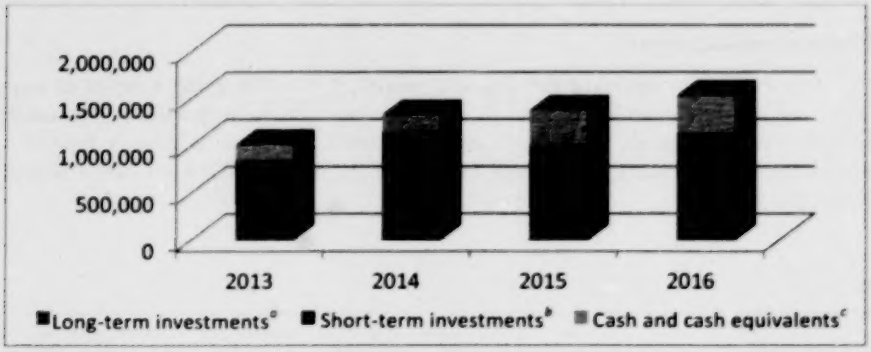
[e] Direct project revenue and expenses relate to the project revenue/expenses reported in note 16.

14. As at 31 December 2016, UNOPS held total cash and investments of $1.53 billion (2015: $1.38 billion), as shown in figure II.II. During 2015, investments with shorter maturities were favoured to aid its transition to carrying out its own treasury function from 1 January 2016, which had been insourced from the United Nations Development Programme. With effect from 1 January 2016, UNOPS changed its accounting policy on investments, changing the description of its holdings from "held to maturity" to "available for sale".

15. In accordance with UNOPS operating procedures, funding is received from project sponsors in advance of the commencement of projects. As at 31 December 2016, UNOPS recognized $1.27 billion in project cash advances (2015: $1.05 billion), including $709.81 million classified as deferred revenue (2015: $537.33 million). This is equivalent to 10.8 months of principal delivery (2015: 9.5 months), indicating that UNOPS remains in a healthy financial position.

Figure II.II
**Classification of cash and investments of the United Nations Office for Project Services**

(Thousands of United States dollars)




*Source*: UNOPS financial statements.

[a] Long-term investments = investments with a maturity of greater than one year.

[b] Short-term investments = investments with a maturity of between 91 days and one year.

[c] Cash and cash equivalents = cash at hand and at bank + investments with a maturity of less than 90 days.

### Approval of budget

16. UNOPS follows a system of biennial budgets. In accordance with regulation 14.02 of the financial regulations and rules of UNOPS, the Executive Director shall have authority to redeploy resources within the approved management budget as well as to increase or reduce the total approved management budget allotment (including the number of employee posts in the employee table and their grades up to the D-2 level), provided the net revenue target established by the Executive Board for the budget period remains unchanged. In the event of a change in the net revenue targets, the approval of the Executive Board is required.

17. The Executive Board of UNOPS approved the biennial budget for the period 2016/17, providing for expenses of $138.7 million and revenue of $138.7 million. As shown in the statement of comparison of budget and actual amounts for the period ended 31 December 2016 (statement V), half of the approved biennial budget, amounting to $69.35 million, was originally budgeted for 2016, which was revised under all line items to $63.57 million. However, formal approval of the line items of the revised management budget for 2016 was not obtained from the Executive Director as required in regulation 14.02 of the financial regulations and rules of UNOPS. Furthermore, as the net revenue target for 2016 was revised from zero to $11.94 million, the change in the budget figure for expenditure to $63.57 million required the approval of the Executive Board, which was not obtained.

18. UNOPS stated that a surplus of $11.9 million constituted less than 1 per cent of the total delivery of UNOPS, which was demand-driven. Furthermore, unlike the original 2016 budget, the final management budget did not include a budget for provisions or write-offs. Accordingly, a positive net revenue target reflected the prudent approach of UNOPS to ensure that sufficient funds would be generated in order to achieve the Executive Board-approved target of zero net revenue, despite potential deviations in the delivery and provision numbers.

19. While the Board agrees that a positive net revenue target reflects a prudent approach, it reiterates that a change in the target requires the approval of the

Executive Board. The Board also notes that explanations of material differences in items between the original and final management budgets and between the final budget and the actual amounts are not presented in the financial statements or in the Executive Director's statement. Such explanation of material differences is required according to the provisions of IPSAS 24, paragraph 14.

20. **The Board recommends that UNOPS obtain the post facto approval of the Executive Board with respect to the original and final management budgets, including each line item.**

21. **The Board also recommends that UNOPS include explanations of material differences in items between the original and final management budgets and between the final budget and the actual amounts in the financial statements.**

22. While acknowledging the recommendations, UNOPS assured the Board that it would seek the approval of the Executive Director to authorize a 20 per cent deviation between items in terms of the breakdown between the original and final management budgets and between the final budget and the actual amounts. This would reflect the specific nature of UNOPS as a self-financing organization. Explanations would then be included in the financial statements for material differences between items falling outside the approved 20 per cent deviation.

#### Instances of double payment

23. The bank-to-book summary reconciliation report for December 2016 showed that there had been 19 cases of overpayment, double payment or excess payment in 2016, valued at $45,537. Those overpayments had not been adjusted/recovered to date.

24. The occurrence of double/excess payments raises concern with regard to the adequacy of internal controls relating to bank payments and necessitates a review of existing internal checks and supervisory controls. The Board noted that the reasons for these cases had not been properly investigated and that internal controls and checks had not been strengthened adequately.

25. **The Board recommends that UNOPS reassess the adequacy of internal controls relating to bank payments and strengthen supervisory checks to ensure that such incidents of double payment, overpayment or excess payment do not occur in the future.**

## D. Governance structure of the United Nations Office for Project Services

#### Headquarters structure: role and responsibilities

26. Under UNOPS organizational directive 15, revised in 2015, a practice approach was adopted under which the principal responsibility of headquarters entities was to ensure the availability of processes and systems for efficient and effective delivery and of management information and reports to enable managerial oversight at all levels of the organization. In the directive, management information and reports were recognized as essential means of enabling oversight and providing reasonable assurance of accountability for the execution of delegated authority and responsibility throughout the organization.

27. The Board noted that the directors at headquarters, as practice leads, were playing the useful role of policymakers and putting in place systems and standards. However, the related aspect of obtaining management information and reports to enable managerial oversight at all levels was found wanting. From the comments

received during its interviews with the directors of practice groups such as the Procurement Group, the Infrastructure and Project Management Group and the People and Change Group, the Board noted that the work of the practice groups was limited to policymaking, establishing systems and standards and advising on the implementation of the policies. In response to a query by the Board, UNOPS confirmed that it did not have either a centralized incident reporting system for project quality-related risks and incidents or centralized information on hiring. Furthermore, there was no system for standardized periodic reporting by headquarters practice leads to effectively monitor broad parameters of policy execution. The Board was informed that independent oversight was achieved through internal audit.

**Governance, risk and compliance framework**

28. In 2016, to further increase its capacity to reliably achieve objectives while addressing uncertainty and acting with integrity, and to support behavioural changes necessary to improve its implementation of activities, UNOPS enhanced its governance system by introducing a new governance, risk and compliance framework. The framework is based on six main components: governance, risk, compliance management, performance management, ethics and cultural management, and internal control. In March 2017, the Executive Director also promulgated an organizational principles and governance model, revising the UNOPS governance model. The organizational principles and governance model stipulated that UNOPS governance would be organized into five areas to ensure that duties and powers were segregated at all levels: (a) external oversight; (b) executive office oversight; (c) operations management; (d) risk, compliance and financial controllership; and (v) assurance. While the duties and responsibilities of the Executive Director, the Deputy Executive Director, regional directors and others are clearly laid out in the organizational principles and governance model, it does not define the roles and responsibilities of headquarters directors (practice leads). As organizational directive 15 is expected to be revised shortly to align it with the governance, risk and compliance framework, the Board anticipates that this issue will be explored at that stage. The Board is of the opinion that, with the implementation of the oneUNOPS system, UNOPS was presented with a unique opportunity to design detailed reports and use the information available to achieve effective management oversight and monitoring.

29. UNOPS replied that within their delegated authority, practice leads were responsible for, inter alia, managing the policies, standards, guidance and tools that they had developed, providing their interpretation of policies, standards and guidance as required, addressing the compliance of those to whom they had delegated authority, managing exceptions thereto, and providing training to UNOPS personnel in that regard. The overall responsibility for managing UNOPS policies, standards, guidance and tools remained with the headquarters groups. It was added that, as part of implementing the new governance, risk and compliance framework, UNOPS would strengthen the existing procedures for exception/incident reporting to the headquarters groups. UNOPS also stated that the decentralized system ensured that accountability and responsibilities were shared between regional directors and country directors, who were accountable for oversight and risk management at the engagement/project and regional levels, and headquarters directors, who were accountable for principled governance policies and standards as well as overall risk management for the organization.

30. **The Board recommends that UNOPS establish a well-defined management reporting and monitoring structure and define the role of headquarters directors (practice leads) for each practice.**

**Functioning of Integrated Practice Advice and Support**

31. The Integrated Practice Advice and Support wing, under the Corporate Support Group at UNOPS headquarters, was established in 2013 primarily to provide advice and solutions regarding everyday implementation challenges. Previously, the practice advice and support function had been decentralized at the regional level.

32. The Board noted that Integrated Practice Advice and Support delivered support and advice to the finance, human resources, legal affairs, procurement and administration practice groups, with certain important transactions in those areas to be mandatorily referred to the wing. However, project management, which was one of the most complex and core activities of UNOPS, had been kept outside the domain of Integrated Practice Advice and Support.

33. From the quarterly reports of Integrated Practice Advice and Support for 2016, the Board noted that the wing provided consistent professional advice and guidance to the practice groups and also submitted its advice or interpretation with respect to rules and processes to them so that they could provide feedback and carry out changes (if required) in administrative instructions or manuals. However, the Board noted that as of May 2017, a significant number of those pieces of advice were pending feedback from some practice groups, as shown in table II.4.

Table II.4
**Status of recommendations of Integrated Practice Advice and Support**

| *Practice group* | *No. of recommendations submitted for feedback* | *No. of recommendations pending feedback* |
|---|---|---|
| Procurement | 9 | 0 |
| Human resources | 54 | 49 (91%) |
| Finance | 21 | 11 (52%) |
| Legal | 13 | 9 (69%) |

*Source*: Information provided by UNOPS.

34. The Board also noted that the delay in the provision by the practice groups of feedback to Integrated Practice Advice and Support would result in delay in clarification with respect to the positions or actions to be taken by the groups, and that the related problems that they had flagged would remain unaddressed.

35. UNOPS replied that the delays in providing feedback during 2016 had resulted from the introduction of the new practice and quality management system and the establishment of the legislative framework committee. It stated that the situation would improve once the transition period was over and the practice and quality management system was fully operational, as the system would simplify the implementation of such changes. UNOPS also indicated that initial feedback from the human resources, finance and legal practice groups had not been received in 73 per cent, 52 per cent and 85 per cent of cases, respectively. UNOPS stated that, whereas policy owners usually provided feedback, addressing recommendations was a more complex and time-consuming matter, as recommendations, by their nature, usually required policy changes. While taking note of the revised figures, the Board noted that a significant number of recommendations were still pending feedback and solutions from various practice owners.

36. **The Board recommends that UNOPS review the role of Integrated Practice Advice and Support vis-à-vis the practice groups to enable the speedy implementation, where considered relevant by the practices, of advisories and solutions provided by Integrated Practice Advice and Support.**

37. **The Board also recommends that UNOPS assess the feasibility of including the project management sphere in the remit of Integrated Practice Advice and Support.**

## E. Functioning of the Ethics Office

38. The Ethics Office of UNOPS was established as an independent office pursuant to the Secretary-General's bulletin entitled "United Nations system-wide application of ethics: separately administered organs and programmes" (ST/SGB/2007/11 and Amend.1). The Office currently has two major programmes, focused on financial disclosure and declaration of interest statements, and protection against retaliation. The Board reviewed the implementation of financial disclosure and declaration of interest statements.

### Financial disclosure and declaration of interest statements

39. The Secretary-General, for the purpose of implementing staff regulation 1.2 (m) and (n), promulgated his bulletin on financial disclosure and declaration of interest statements (ST/SGB/2006/6), which provided for, inter alia, the obligation of staff members to file a financial disclosure statement or a declaration of interest, and indicated the scope thereof.

40. According to section 3.1 of ST/SGB/2006/6, staff members who are required to file a financial disclosure statement shall report specified assets and income in respect of themselves, their spouses and their dependent children.

41. UNOPS organizational directive 23, on financial declaration statements for UNOPS personnel, which was aligned with ST/SGB/2006/6, was superseded by revised organizational directive 23, which took effect on 13 September 2016. The revised directive requires that specified UNOPS personnel submit filings with respect to various aspects of conflicts of interest that are broader than those set out in ST/SGB/2006/6. However, asset disclosure statements have not been made mandatory and are to be filed by specific UNOPS personnel as determined by the UNOPS Ethics Office. The Board noted that, although the specified personnel had submitted the financial disclosure and conflict of interest statement for 2016, the UNOPS Ethics Office had not requested an asset disclosure statement from any of them.

42. UNOPS replied that over the past 10 years, the provisions of ST/SGB/2006/6 had proved not to be ideal in terms of identifying conflicts of interest, which was the objective of the exercise (as indicated in staff regulation 1.2 (n)). Financial disclosure was required in order to identify conflicts of interest. It was added that UNOPS had revised its financial disclosure programme to enhance that objective.

43. The response of UNOPS should be seen in the light of the fact that its Executive Office directive 1, dated 13 March 2017, reiterated that all of the legislative instruments of UNOPS must comply with the instruments promulgated by organs of the United Nations having authority over the Executive Director of UNOPS, such as the General Assembly, the Economic and Social Council, the Executive Board of UNOPS and the Secretary-General. Furthermore, section 3 (a) of the directive, read with section 5.2 of ST/SGB/2007/11, states that the United Nations Ethics Committee shall establish a unified set of standards and policies of the United Nations Secretariat and of the separately administered organs and programmes, to ensure uniform and consistent application of ethics-related issues within the United Nations system. However, revised organizational directive 23 does not fulfil the purposes of those governance documents.

**44. The Board recommends that UNOPS consider establishing a financial disclosure policy for its personnel that is aligned with the financial disclosure policy of the United Nations Secretariat (as defined in ST/SGB/2006/6).**

45. UNOPS accepted the recommendation.

## F. Business continuity and disaster recovery plans

46. Business continuity and disaster recovery plans are integral parts of the overall risk management of an organization. They are of even greater importance in organizations that have enterprise resource management systems where all business-critical information is hosted and managed. UNOPS implements projects in difficult and fragile regions and is responsible for infrastructure development and services, and hence such plans are critical for its work.

47. In accordance with section 16 (p) of the UNOPS strategic risk management planning framework (organizational directive 33), UNOPS established a business continuity planning and disaster recovery framework in 2010 through an administrative instruction (AI/CSG/2010/01). The framework included a template for business continuity and disaster recovery plans and the assignment of specific responsibilities at all staff levels for their preparation. In the administrative instruction, each regional director is called upon to ensure that the office under his or her charge has such a plan. The Corporate Support Group was given UNOPS-wide responsibility for a business continuity and disaster recovery plan. The plan was to be tested annually to ensure credible recovery preparedness and updated regularly to reflect changes in personnel responsibilities and personnel contact information, as well as functional changes in the Corporate Support Group. The directors of offices/operations centres and the managers of project centres were made responsible for the training of personnel in the area of business continuity and disaster recovery.

48. The Board noted that on the UNOPS intranet, the business continuity and disaster recovery plans of field and regional units were available and were updated regularly. However, the UNOPS-wide plan and the plans of the headquarters groups had been uploaded only after being pointed out by the Board. At the offices in Maldives, Nepal and Serbia, such plans had not been tested in 2016. Furthermore, at 16 other field offices,[2] no information was available regarding the annual testing of such plans, and at 15 field offices,[3] no information was available about the number of personnel trained in this regard. At the Copenhagen headquarters, the Global Shared Service Centre and the regional offices, such plans were not tested annually and relevant training had not been conducted. The Board is of the opinion that the business continuity and disaster recovery plans should be regularly updated and tested and that all personnel concerned should be adequately trained.

49. UNOPS responded that, as its headquarters was in a low-risk area and covered by the United Nations security plan for Denmark, focus had been placed on the business continuity plans of field offices, with the exception of the critical information technology portion of the headquarters plan. The Board considers that the scope of business continuity and disaster recovery plans extends beyond the physical security of people and premises, and also includes planning for information technology assets, data and systems. For an organization that is increasingly

[2] In Argentina, Belgium, Cambodia, Colombia, Costa Rica, Côte d'Ivoire, El Salvador, Ethiopia, Guatemala, Honduras, Jordan, Kenya, Saint Lucia, Sri Lanka, the Sudan and Kosovo.

[3] In Argentina, Belgium, Cambodia, Colombia, Costa Rica, Côte d'Ivoire, El Salvador, Ethiopia, Guatemala, Honduras, Jordan, Kenya, Nepal, Saint Lucia and the Sudan.

migrating to e-solutions, enterprise resource planning and web-based business data exchange, the Board considers such plans to be equally relevant at the headquarters level.

50. **The Board recommends that UNOPS ensure compliance with its administrative instruction on business continuity and disaster recovery planning at all its offices and components and include information technology assets, data and systems.**

51. UNOPS accepted the recommendation.

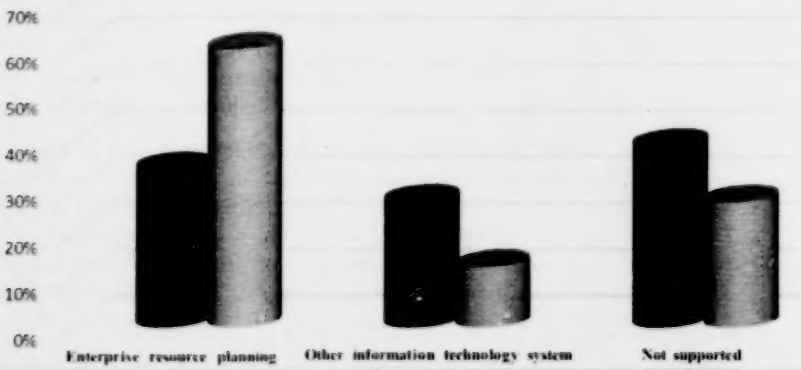
## G. Implementation of the oneUNOPS enterprise resource planning system

52. In 2004, UNOPS, in collaboration with the United Nations Development Programme and the United Nations Population Fund, implemented an enterprise resource planning application called Atlas that enabled it to manage basic financial transactions. Subsequently, the information and communications technology resources of UNOPS were strengthened through several additional custom applications and tools. UNOPS decided to opt for a tier II enterprise resource planning system (later named oneUNOPS) to consolidate most of its decentralized information technology applications and enhance the effectiveness of enterprise resource planning in the organization.

53. oneUNOPS was implemented with effect from January 2016, replacing the previous enterprise resource planning system. There was agreement across stakeholders that oneUNOPS would be a modern and flexible enterprise resource planning system that better supported UNOPS as an organization. In addition, it was intended to permit insourcing of human resources and payroll, which would yield savings and provide increased flexibility and agility in terms of services.

54. The business innovation and improvement programme managed the implementation of oneUNOPS and continues to improve UNOPS processes by improving and extending the use of oneUNOPS processes. The coverage of oneUNOPS functionalities is depicted in figure II.III.

Figure II.III
**Coverage of functionalities in oneUNOPS**




| | Enterprise resource planning | Other information technology system | Not supported |
|---|---|---|---|
| Prior to oneUNOPS | 34% | 27% | 39% |
| Post oneUNOPS implementation | 60% | 13% | 27% |

*Source*: UNOPS information.

55. The Board noted that, while the implementation of oneUNOPS had resulted in a marked improvement in the coverage of UNOPS processes and functionalities, the coverage of some critical functionalities remained ongoing, such as the mechanism for reporting project management-related risk and compliance issues and the process of establishing interfaces between oneUNOPS and online banking systems.

56. A fraud risk assessment of oneUNOPS sponsored by the Internal Audit and Investigations Group, conducted from February to March 2016, identified 84 fraud risks (22 low-priority and 62 high- or medium-priority) across five focus areas. A few of the unresolved critical fraud risks and issues highlighted as a result of the assessment and acknowledged by UNOPS are as follows:

- Validation of data imported from the previous enterprise resource planning system to oneUNOPS
- Fraudulent disbursements — miscellaneous transactions fraudulent disbursements — inaccurate recording
- Unauthorized changes to customer master data
- Inappropriate updating and checking of supplier master data.

57. The Board observed that, although the portfolio of the information technology system had been rationalized and reduced through the integration of more processes into the enterprise resource planning system, the contract and property review system remained outside the purview of oneUNOPS. In the course of the audit, the Board noted that in some cases, information pertaining to project management, such as project details; to procurement, such as details about sanctioned vendors; and to human resources information, such as details about internal and external recruits, could not be provided by the practice groups. The Board was informed that a customized report-generating function would soon be made available to users.

58. **The Board recommends that UNOPS review the performance of oneUNOPS to determine whether all the intended controls are in place and effectively working, whether the intended benefits of the new systems are being realized, and whether information system delivery components are adequately aligned with the intended business requirements, including management information reports.**

## H. Project management

59. Significant portions of UNOPS revenue (99.73 per cent) and expenditure (91 per cent) pertain to its project management activities, which are handled by the Infrastructure and Project Management Group at UNOPS headquarters.

### Delays in project closure

60. Rule 116.07 (a) of the financial regulations and rules of UNOPS stipulates that, as soon as project activities have ceased, they shall be declared operationally completed and a financial report shall be prepared, in conformity with established procedures and reflecting actual expenditures to date. Rule 116.07 (c) of the financial regulations and rules requires the financial completion of project activities within 18 months after the month in which they are operationally completed or terminated.

61. In previous reports, the Board had expressed concern about continued delays in the closure of projects and recommended that UNOPS consider measures to enable it to close projects in time and address the backlog of projects requiring closure. In April 2017, the Board was informed that the closure team had managed

to close 245 projects in 2016 and 147 in the first quarter of 2017 (as at 27 March). The Board was also informed that 40 old projects were pending closure, of which 19 were in the last stage of the process, awaiting client confirmation to proceed, and 21 were to be moved into the last stage. It was assured that UNOPS continued to work closely with its country offices on the remaining old projects.

62. The Board was informed that there had been 1,084 projects in various stages of closure in 2016; their status is shown in table II.5.

Table II.5
**Status of project closure in 2016**

| | *No. of projects* |
|---|---|
| Ongoing | 356 |
| Pending operational closure | 83 |
| Operationally closed | 301 |
| Financially frozen[a] | 78 |
| Financially closed | 245 |
| Cancelled | 21 |
| **Total** | **1 084** |

*Source*: Information provided by UNOPS.

[a] A project is considered financially frozen once the final financial statement has been signed by the Comptroller. After this stage, acceptance of the final financial statement by the client, a refund, if any, and write-offs are carried out.

63. From its review of the projects referred to above, the Board noted that:

(a) The projects pending operational closure had been pending such closure for up to 143 days; the reasons included that they were awaiting information from field offices, the database had not been updated and they were awaiting confirmation by the client;

(b) Of the 301 operationally closed projects, 215 had been closed more than 90 days after the project end date; one of the reasons cited was a delay in asset disposal;

(c) Of the 78 financially frozen projects, the closure of 18 had been delayed for more than 18 months after their operational closure;

(d) Of the 245 financially closed projects, the closure of 235 had been delayed for periods ranging from 180 to 4,284 days after the project end date.

**Inadequacies in the data management system for project closure**

64. The Board noted that the database captured projects in six categories (as shown in table II.5), but did not capture the interim steps or the dates on which they had moved from one status to another, which did not permit meaningful analysis of the reasons for project closure bottlenecks. We also noted that, in 114 out of 1,063[4] projects, the duration of the engagement was not available in oneUNOPS, and in 176, the project end date was after the engagement end date, indicating that the project was ongoing after the period specified in the engagement agreement. UNOPS provided the details of only 42 projects in which an extension had been granted. In one case, even the revised extension date had passed.

[4] A total of 1,084, less 21 cancelled projects.

65. The Board is of the opinion that delays in project closure might affect the use of project assets and might also reflect adversely on the performance of UNOPS as project service provider. UNOPS accepted the inconsistencies in the data and attributed them to the migration of data from legacy information technology systems (Leads[5] and Atlas) to oneUNOPS.

66. UNOPS acknowledged that qualitative information on the closure of individual projects could be made easily accessible in oneUNOPS, but stated that there were continuing challenges, especially in relation to the project closure backlog. However, it insisted that there had been a significant improvement in the closure exercise owing to the close coordination among the Infrastructure and Project Management Group, Integrated Practice Advice and Support and the Finance Group and to the continuous training being provided to programme managers and field finance officers. UNOPS also stated that it had initiated a "project closure drive" with the aim of closing the 379 projects that were pending financial closure by the end of the third quarter of 2017.

67. While noting the efforts made to enhance efficiency in this respect, the Board emphasizes the need for better information management and follow-up to achieve the timely closure of projects.

68. **The Board recommends that UNOPS review the procedures and practices for project closure and address the deficiencies that contribute to delay in the completion of the project closure process.**

69. UNOPS accepted the recommendation.

### Delays in the implementation of projects

70. In previous reports (A/65/5/Add.10, chap. II, and A/68/5/Add.10 and Corr.1, chap. II), the Board had reported frequent extensions of projects at UNOPS operations centres. UNOPS had undertaken a quantitative analysis of 87 infrastructure projects that had been extended at least once during 2015. UNOPS indicated that, in respect of 18 of the projects, it did not have sufficient information to ascertain the reasons for the delays in project implementation. The reasons for the delays in the implementation of the remaining 69 projects are set out in table II.6.

Table II.6
**Reasons for delays in project implementation**

| | *No. of projects* | *Percentage of total* |
|---|---|---|
| Increase in scope | 15 | 21.74 |
| Internal redistribution of funds | 12 | 17.39 |
| Delay in construction | 10 | 14.49 |
| Security/conflict issues | 9 | 13.04 |
| Delay in receipt of funds | 6 | 8.70 |
| Planning issues | 4 | 5.80 |
| Governmental delay | 3 | 4.35 |
| Lengthy negotiations | 2 | 2.90 |
| To reflect defect liability period | 2 | 2.90 |
| No-cost extension at client request | 1 | 1.45 |
| Use of extra cash balance | 1 | 1.45 |

[5] The Leads system was a custom application aimed at supporting the workflow process from prospect to project, including description of project, business case and internal approvals.

| | *No. of projects* | *Percentage of total* |
|---|---|---|
| Change in administrative procedures | 1 | 1.45 |
| Headquarters Contracts and Procurement Committee delay | 1 | 1.45 |
| Change in project classification | 1 | 1.45 |
| Donor funding period | 1 | 1.45 |
| **Total** | **69** | **100.00** |

*Source*: UNOPS analysis.

71. Project data provided by UNOPS did not show the number of extensions given on projects that could not be completed within the originally scheduled time frames, which precluded any meaningful analysis. While the Board appreciates the fact that projects may be delayed for reasons beyond the control of UNOPS, as reflected in the Office's own analysis above (see table II.6), reasons such as planning issues, Headquarters Contracts and Procurement Committee delays and delays in construction contributed to some of the delays. The Board also noted with concern that, in nearly 20 per cent of the cases in the sample study, UNOPS did not have sufficient information to ascertain the reasons for delays. Given that these were cases in which the last extensions had been given in 2015, the lack of sufficient information on the reasons for delays indicated the need to review project management information systems.

72. UNOPS replied that several initiatives were in the pipeline, such as the enterprise project management system, which was aimed at improving the project management information system and would address improving the management analysis of extension trends. It would provide more information and oversight with respect to project issues from inception to closure. It was added that, owing to the transition from Atlas to oneUNOPS, many features had yet to be fully incorporated and were in the development pipeline. Controls were in place with respect to individual extensions, such as engagement amendments, which were centrally controlled through the engagement acceptance policy.

73. **The Board recommends that UNOPS review its project management information system, along with the transition to oneUNOPS, so that centralized information on project status, including extensions and reasons for delayed implementation, are captured for better management oversight.**

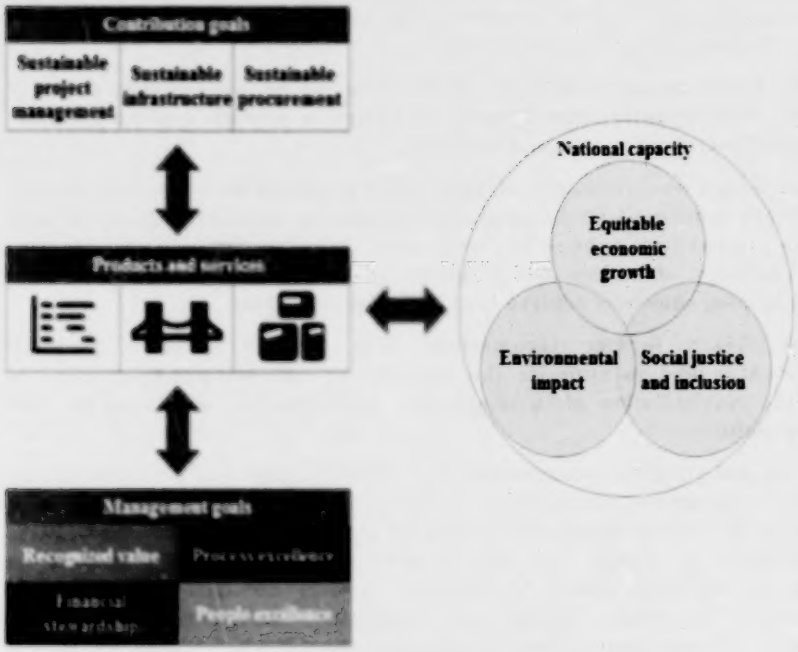
## I. Sustainable infrastructure and project management

74. The strategic plan for the period 2014-2017 reflected the mandate of UNOPS and its firm commitment to sustainable development.[6] That commitment was further articulated in its vision, which is to advance sustainable implementation practices in development, humanitarian and peacebuilding contexts, and in its mission, which is to serve people in need by expanding the ability of the United Nations, Governments and other partners to manage projects, infrastructure and procurement in a sustainable and efficient manner. UNOPS has stipulated three sustainability

[6] Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

dimensions,[7] namely, equitable economic growth, social justice and inclusion, and environmental impact, as depicted in the results framework illustrated in figure II.IV.

Figure II.IV
**UNOPS results framework**




*Source*: Information provided by UNOPS.

75. The Board examined the extent to which sustainability was delivered by UNOPS projects in the activities of portfolio management and infrastructure vis-à-vis the business development strategy, the alignment of the approach with the mandate, sustainability mainstreaming, results reporting and the approach to the Sustainable Development Goals and way forward on sustainability.

**Portfolio management model**

76. The Board noted that project management services contributed between 61 per cent and 71 per cent of total UNOPS revenue during the period 2013-2015, while the contribution of infrastructure services to revenue ranged between 25 per cent and 36 per cent, and that of procurement services ranged between 3 per cent and 4 per cent, during the same period. In addition, the Board noted that project management services had reported a lower percentage of projects contributing towards sustainability dimensions.

77. The Board observed that, although UNOPS was a not-for-profit member of the United Nations family, it had consistently achieved a net revenue surplus, with $14.7 million in 2013, $9.9 million in 2014, $14.3 million in 2015 and $31.28 million in 2016.

[7] Sustainability dimensions and standards are as outlined in the strategic plan for the period 2014-2017 (DP/OPS/2013/3, para. 24) and in the UNOPS policy for sustainable infrastructure.

78. Despite the situation outlined above, the Board noted that UNOPS had not built a portfolio management model to help shape its global portfolio in order to maintain financial viability without compromising on its commitment to contribute to the sustainable development of countries. Such a model could help UNOPS decide on entering into new projects that can maximize sustainability contributions and on exiting from projects that are not adding value to UNOPS in the fulfilment of its mandate. The aim of the portfolio management model should be to build an optimum global portfolio that maximizes the sustainability considerations while ensuring the financial viability of UNOPS.

79. **The Board recommends that UNOPS spell out its sustainability policy in the form of an organizational directive to prioritize projects and programmes with higher contributions to sustainability.**

80. **The Board also recommends that UNOPS realign its business processes and delivery practices with its mandate of delivering sustainability and clearly lay down priority service lines, key focus areas, activities, projects and partners for the delivery of sustainable products and services, so as to contribute towards helping countries achieve sustainable development.**

81. **The Board further recommends that UNOPS build a portfolio management model to optimize the portfolio of delivery practices so as to ensure the maximization of sustainability considerations, as well as its own financial viability.**

82. While accepting the recommendations, UNOPS replied that it was optimizing its portfolio of practices, service lines and focus areas through the realignment of its contribution and management goals within the strategic plan for the period 2018-2021. In order to ensure that sustainability contributions are prioritized in engagements, UNOPS would be including aspects on sustainability in the organizational directives dealing with engagement acceptance, engagement management and engagement closure, rather than through a separate organizational directive. UNOPS also informed the Board that it had already initiated building a portfolio management model approach through the governance, risk and compliance framework.

**Sustainability mainstreaming in the project life cycle**

83. As part of its responsibilities, UNOPS is also required to mainstream sustainable development by integrating the three dimensions of sustainability into its operations and contributions to partners' results. The strategic plan for the period 2014-2017 intended the application of sustainability principles at various stages of the project life cycle, starting with the screening of projects under the engagement acceptance process,[8] the assessment of project initiation documents, the project assurance process, project progress reports and ending at the closure of a project.

*Sustainability screening*

84. The Board noted that, in the first quarter of 2014, a sustainability screening tool, which later became known as sustainability marker,[9] had been developed by

[8] The engagement acceptance process is a central component of the organization's risk management system by which an engagement is assessed on the basis of the risks associated with the scope of the project, legal and financial aspects, as well as risks to the mandate and reputation of UNOPS, for the purpose of identifying, evaluating, mitigating and monitoring engagement level risks.

[9] The tool was intended to review and improve UNOPS project engagements. It would engage with partners on sustainability, assessing the likely social, environmental and economic impacts of a project, as well as national capacity.

UNOPS. Training programmes were also organized for the use of the tool during 2014. But the screening tool was never rolled out by UNOPS, despite resources having been engaged on the initiative.

85. UNOPS stated that its sustainability programme was continuing in its new phase, under the Global Reporting Initiative[10] programme, with a focus on sustainability management and reporting under the Initiative, as well as environmental footprint reporting. The Board is of the opinion that the adoption of the sustainability management and reporting process in the framework of the Initiative, in the absence of the sustainability screening tool, would not serve the intended purpose of screening the engagements and projects, from the design stage onwards, to capture all three dimensions of sustainability, as well as national capacity development, and of monitoring project progress against sustainability standards during the life of the project.

86. UNOPS replied that the development of the screening tool was a pilot project, which helped UNOPS develop its current approach of directly embedding sustainability considerations into relevant engagements as part of the engagement design and acceptance process and tools, instead of using a separate and stand-alone tool. It was further stated that the revised risk assessment in the oneUNOPS opportunity and engagement acceptance process had been launched in October 2016 and would be reviewed during the course of 2017, with the aim of launching a revised, improved version of the process in the first quarter of 2018. UNOPS added that the revision would consider how sustainability elements can best be integrated into the process to support the development of more sustainable engagement in the design phase.

87. **The Board recommends that UNOPS establish and adopt a sustainability screening tool to screen projects against sustainability standards at the design stage, fixing sustainability targets and deliverables to facilitate the monitoring of progress during the life of a project.**

*Engagement acceptance process*

88. The screening checklist of the engagement acceptance process includes two questions related to the sustainability aspects of environmental and/or health, safety and social impacts. It does not include questions on economic and national capacity dimensions. The sustainability dimensions are not predefined into specific criteria, targets and deliverables at the engagement acceptance process stage. As such, no minimum sustainability standards and targets are prescribed for screening projects during the engagement acceptance process. As a result, not all projects have incorporated sustainability considerations at the design stage, as can be seen from the data from 2014 and 2015, which show that 38 per cent (2015) and 45 per cent (2014) of UNOPS project proposals did not include sustainability considerations, and 41 per cent (2015) and 49 per cent (2014) of projects included activities that lacked sustainability considerations (see table II.7 and para. 100 below).

*Project initiation documents*

89. The template for the project initiation document has a section on environment and sustainability management, but only considers environmental, social and economic impacts of the projects for their compliance with state legislation and donor's requirements. The Board noted that the inclusion of sustainability

[10] The Global Reporting Initiative is a global standard for sustainability reporting, led by an independent international standards organization, which is a collaborating centre of the United Nations Environment Programme.

considerations in the project initiation document by project developers was not mandatory. Moreover, the manner in which sustainability considerations were included in the documents varied, with only 4 of the 65 project initiation documents spot checked at UNOPS headquarters including sustainability targets in measurable terms.

90. From an examination of seven projects in the Haiti operations centre and 11 projects in the Panama operational hub, the Board noted that the sustainability standards regarding gender equality, persons with disabilities, climate change, the environment and disaster risk reduction were addressed only in generic terms, or that no details were given thereof.

*Quarterly assurance process*

91. The quarterly assurance process is a monitoring and reporting tool for the country directors and regional directors to assess the overall progress of a project on a quarterly basis, as reported by the project managers. The Board examined the quarterly assurance process[11] at the Cambodia operational hub, Haiti operations centre, Nepal operations centre, Panama operational hub and Thailand operational hub and observed that it was only a system-driven monitoring tool, which had only one question on sustainability and contained no detailed analysis of problems and any corresponding action to be taken. In addition, the quarterly assurance process did not provide for the verification by the country directors of project managers' quarterly progress reports. Thus, the present process for quarterly project assurance does not actually monitor and measure project progress and does not report sustainability outputs against any targets or deliverables.

*Project closure reports*

92. UNOPS informed the Board that a dedicated sustainability reporting template did not yet exist in the template for the project closure report, but a section in the standard UNOPS final report template was dedicated to environmental and/or sustainability considerations. The Board noted that the project closure checklist did not require an assessment as to whether sustainability targets and deliverables in the project initiation document have been achieved or delivered. In addition, there was no specific requirement in the closure procedure for measuring and reporting on project performance against sustainability targets and deliverables as set out in the project initiation document.

93. On the basis of its findings, the Board is of the opinion that, at present, there is no business process for monitoring, measuring and reporting on sustainability outputs against measurable targets and deliverables during the life cycle and closure of projects. The Board is of the view that, in order to report sustainability contributions meaningfully at the closure of a project, sustainability criteria, targets and deliverables should be first fixed and incorporated into the project initiation document and then screened as part of the engagement acceptance process. During the implementation of projects, sustainability results may be monitored and verified through the quarterly assurance process, throughout the life cycle of projects, and the performance of projects may be measured and reported on in the project closure report.

94. While accepting the observation, the Administration of UNOPS stated that the revised opportunity and engagement acceptance process, introduced in October

[11] The process is a tool for country directors to assess the overall progress of a project on a quarterly basis in order to provide information to the regional director and to headquarters, on the basis of, among other things, the meetings and reports of project managers and their exchanges of emails.

2016, includes a categorization of engagement in terms of service lines and roles. It was added that, in the course of the further evolution of the process, UNOPS would consider which sectors corresponded to the outputs at the project level and would subsequently define which of the Sustainable Development Goals the outputs may support. The opportunity and engagement acceptance process would drive the definition of targets and deliverables at subsequent stages, at the project level. UNOPS would also consider how those project-specific targets and deliverables could be monitored so that efficiency and sustainability could be reported on, on a quarterly basis, and subsequently evaluated.

95. **The Board recommends that UNOPS incorporate sustainability targets and deliverables into project initiation documents, for mandatory screening and monitoring, measurement and reporting of sustainability contributions at all stages of the project life cycle, from engagement acceptance, quarterly assurance and project progress reports to project closure reports.**

96. UNOPS assured the Board that it would ensure that sustainability contributions are prioritized in engagement acceptance and defined within project initiation documents, and that it would include sustainability elements in the related organizational directives.

*Sustainability result reporting*

97. Sustainability reporting is an important commitment, made in the strategic plan for the period 2014-2017. The strategic framework provides for results-based reporting, which covers how UNOPS delivers, in the form of sustainable approaches, what UNOPS delivers, in the form of the products and services at the output level and the contributions that these make to sustainable outcomes. In order to facilitate that process, UNOPS was to develop performance indicators to measure the achievement of results and its contributions to sustainable outcomes. UNOPS started reporting specifically on sustainability contributions in its annual reports for 2014 and 2015 (see figure II.V). UNOPS reported sustainability contributions made by its projects against the three sustainability dimensions, as well as national capacity, as indicated below:

(a) **National capacity**: Around 55 per cent of all projects in 2015 reported one or more activities that contributed to developing national capacity in the course of project activities, as compared with 60 per cent of projects in 2014;

(b) **Equitable economic growth**: 48 per cent of all projects in 2015 included one or more activities that contributed to economic sustainability, as compared with 48 per cent of projects in 2014;

(c) **Social justice and inclusion**: 58 per cent of all projects in 2015 reported one or more activities that contributed to social sustainability, compared with 54 per cent of projects in 2014;

(d) **Environmental impact**: 43 per cent of all projects in 2015 reported one or more activities that contributed to environmental sustainability, compared with 51 per cent of projects in 2014.

Figure II.V
**Sustainability contributions against sustainability criteria**

*Source*: UNOPS annual reports.

98. Sustainability contributions as reported in the annual reports were more focused on project activities associated with the three dimension of sustainability, as well as national capacity, but less so on sustainable outputs and outcomes, although those were envisaged in the strategic plan. Since project activity is the stage of a project during which inputs are transformed into outputs, reporting sustainability predominantly at the activity level has not clearly reflected the extent to which UNOPS projects had actually contributed to sustainability results at the output and outcome levels.

99. The Board noted that sustainability reporting also happened through the results-based reporting process,[12] wherein contributions to sustainability were captured from data entered by project managers on a predesigned template, without any review mechanism to ensure validity and objectivity. On the basis of the information generated from such reporting, contributions to sustainability can be seen at three stages, namely, project proposal, activity and output, as presented in table II.7.

Table II.7
**Projects with sustainability considerations**

| | | *Number and percentage of projects with sustainability considerations, by stage* | | |
|---|---|---|---|---|
| *Year* | *Total number of projects* | *Project proposal* | *Activity* | *Output* |
| 2014 | 1 231 | 678 (55) | 626 (51) | 587 (48) |
| 2015 | 1 320 | 814 (62) | 774 (59) | 698 (53) |

*Source*: Information provided by UNOPS.

100. The Board observed that, on the whole, in 2015, 38 per cent of project proposals did not have sustainability considerations, and in 2014, that was the case

[12] The results-based reporting process is a common tool to support the use of project-level data by project managers in reporting sustainability.

for 45 per cent of project proposals (see also para. 88 above). The Board observed that the results-based reporting process captured the data which most accurately described a feature or consequence of one or more parts of a plan, or activity or output of projects, and not the exact sustainability features delivered by each project. Moreover, the sustainability considerations reported through results-based reporting are not fully verified, as there is no independent system of verification in place. The Board also noted that it was an ex post facto, year-end exercise and was not generated through a system-driven sustainability screening tool, as had been committed to under the strategic plan for the period 2014-2017.

101. While accepting the observation, the Administration stated that it was committed to considering how best to embed capacity for target follow-up and post-project closure assessments of contributions to outcomes and the associated lessons learned, including through a cost-benefit assessment of different approaches and areas of focus.

102. **The Board recommends that UNOPS establish a standard procedure for sustainability results reporting at the output and outcome levels by capturing data throughout the business process, to be measured against predefined sustainability standard indicators, targets and deliverables, and having the results validated through a verification mechanism.**

103. UNOPS accepted the recommendation.

*Project management toolkits*

104. UNOPS has taken initiatives to mainstream sustainability in the form of various project management toolkits[13] during the period from 2013 to 2015. The Board observed that in 2016, at the Haiti operations centre, Panama operational hub, Nepal operations centre and Cambodia operational hub, trainings on project management toolkits such as those covering capacity-building, gender mainstreaming and project budgeting had been imparted to personnel. However, despite the development of toolkits for sustainable project management and the provision of training to personnel involved in project development and management, their use of the toolkits had not been made mandatory.

105. In response, UNOPS assured the Board that it would develop a time-bound plan for the integration and alignment of relevant project management procedures with other relevant business processes and supporting systems and would also consider how best to incentivize the use of the toolkits developed and of other guidance material to ensure the availability of area-specific guidance and advice.

106. **The Board recommends UNOPS develop a time-bound plan for the mandatory use of project management toolkits across UNOPS.**

107. UNOPS accepted the recommendation.

*Environmental management system*

108. As part of the strategic plan for the period 2014-2017, UNOPS had implemented the environmental management system adopted under the International Organization for Standardization ISO 14001 certification programme at UNOPS headquarters in Copenhagen and at six other offices during the period 2014-2017.

109. The Board observed that UNOPS did not have a corporate plan to implement the environmental management system adopted under the International Organization

[13] Toolkits for community engagement, gender mainstreaming, capacity-building, monitoring and evaluation, project budgeting, project planning and small business development.

for Standardization ISO 14001 certification programme across UNOPS. There was a lack of uniformity in terms of practices on environmental management in projects implemented by all other UNOPS offices that are not compliant with that environmental management system certification programme. The extent of implementation of environmental management by those field offices was not being monitored and documented at the corporate level for better compliance by the field offices. While there were no specific norms, in the past three years, less than 10 per cent of projects had their environmental management system peer reviewed by the health, safety and environment subgroup, which reflected a weak monitoring mechanism. The Board's spot check of 7 out of 15 infrastructure projects at the Haiti operations centre and 9 out of 25 infrastructure projects at the Panama operational hub indicated scope for improvement in the level of awareness regarding the use of an environmental and social screening tool and regarding the importance of environmental and social reviews and the benefits of implementing the environmental management system.

110. In response, the Administration agreed to consider appropriate interventions to strengthen the environmental management system and consider further defining the criteria for its implementation in projects and offices, in order to better prioritize and invest its resources in a time-bound manner. Since UNOPS offices vary significantly in terms of scope, size, role and sector, the Administration added that it would analyse the benefits of the system against the investment required for ISO certification and, as appropriate, develop a phased implementation plan.

111. **The Board recommends that UNOPS (a) develop a time-bound plan for covering all country offices under the environmental management system, in compliance with ISO 14001 certification, in line with the commitment in the strategic plan for the period 2014-2017; (b) adopt uniform practice across all offices to deliver environmentally sustainable infrastructure until such time that all other offices are brought under the environmental management system adopted under the International Organization for Standardization ISO 14001 certification programme; and (c) augment human resources for the peer review system through the health, safety and environment subgroup.**

112. UNOPS accepted the recommendation.

*Sustainability standards for employment of labour*

113. UNOPS published a policy for sustainable infrastructure in 2012 in which, inter alia, it defines the sustainability standards in certain areas and the role and responsibility of contractors hired for the implementation of infrastructure projects and seeks to ensure that the standards are duly adhered to by the contractors while implementing the projects. The standards relate to areas such as public health, safety and security, gender equality and empowerment of women, freedom of association of labour, prohibition of forced or compulsory labour, elimination of child labour, health and safety in employment, and hours, wages and leave.

114. The Board verified the adherence to the above standards in 22 out of 35 projects in the Haiti operations centre, and 10 out of 25 projects in the Panama operational hub and observed that project documents did not include any aspects relating to adherence to the above standards by contractors, nor any violations noticed or any action taken by them.

115. **The Board recommends that UNOPS prescribe appropriate methods for verifying and validating in order to ensure that the third parties and/or local contractors employing labourers for the implementation of UNOPS projects comply with the standards laid down in the policy for sustainable infrastructure.**

116. UNOPS replied that it would introduce organizational instructions in this regard and added that an additional guidance on working for UNOPS as a contractor was also being drafted.

*Innovation fund for promoting sustainability*

117. As part of its strategic plan for the period 2014-2017, it had been the endeavour of UNOPS to contribute to partners' needs through sustainable delivery practices. Over time, it was expected that the variety and nature of certain products and services would evolve, in particular as relates to sustainability features. In order to keep pace with developments in technology and partner demands, UNOPS was to establish an innovation fund, directing resources to the development of sustainable products and services. Towards that end, UNOPS had committed to reinvest at least half of any financial surplus into innovation for sustainability under its sustainability programme. This was an important key performance indicator for 2014-2017.

118. The Board observed that UNOPS had neither established an innovation fund as envisaged under its strategic plan for the period 2014-2017, nor set aside any of the financial surplus in the existing investment fund, despite year-end surpluses in the range of $10 million to $15 million over the past three years (2013-2015). As such, the Board could not assess the actual spending towards the above-specified purpose.

119. In response, UNOPS stated that the establishment of a distinct innovation fund was a driving force behind UNOPS corporate priorities as defined in the midterm review of the strategic plan. It was further stated that, in alignment with Executive Board decisions 2015/12, 2016/12 and 2016/19, a new business unit was being developed within UNOPS in order to help direct both public and private funding mainly towards the development of sustainable and resilient infrastructure. UNOPS would ensure that the level of actual commitments to such an innovation fund does not create liabilities or risks that may put its current operations under stress or cause UNOPS to face a shortfall in resources in addressing potential liabilities pertaining to the current portfolio of projects.

120. **The Board recommends that UNOPS take steps to establish a distinct innovation fund, as envisaged in the strategic plan for the period 2014-2017.**

121. UNOPS stated that in its budget estimates for 2018-2019, it would be proposing a mechanism to dedicate a portion of its financial surplus to address strategic investments.

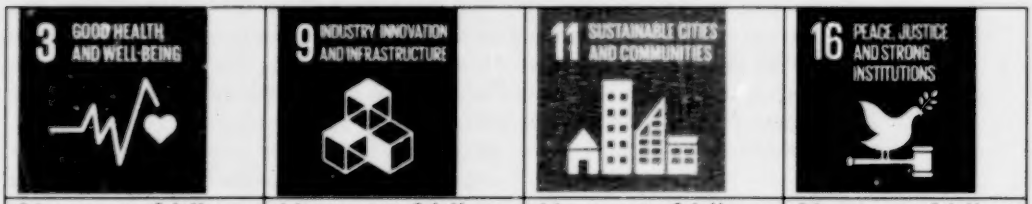
## J. Sustainable Development Goals

122. The Sustainable Development Goals, to which Member States made a joint commitment in September 2015 through General Assembly resolution 70/1, provide an ambitious and long-term agenda on a broad range of vital issues. The framework contains 17 goals and 169 targets to be achieved by 2030. While the onus is on national governments to strive to achieve the Goals, the various entities of the United Nations system could play a key role in supporting, facilitating and offering assistance to national governments in achieving specific Goals. At the time of writing, however, UNOPS had not formulated a long-term strategy on its role in the implementation of the Goals.

123. In its midterm review of the strategic plan for the period 2014-2017, in September 2015, UNOPS laid out its overall framework for how it would support the 2030 Agenda, including the Goals. The midterm review presented an ex ante assessment of its contributions to different Goals by mapping the projects

implemented in 2014 and 2015 through the lens of the 17 Goals. That assessment suggested that four Goals (Goals 3, 9, 11 and 16) accounted for approximately three quarters of total UNOPS project delivery, as shown in figure II.VI.

Figure II.VI
**Sustainable Development Goals and UNOPS delivery, 2014-2015**


3 GOOD HEALTH AND WELL-BEING
9 INDUSTRY INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES
16 PEACE, JUSTICE AND STRONG INSTITUTIONS

| 24 per cent of delivery | 14 per cent of delivery | 14 per cent of delivery | 24 per cent of delivery |
|---|---|---|---|

*Source*: Information provided by UNOPS.

124. The ex ante assessment further showed that UNOPS supported partners in achieving objectives related to a number of other Sustainable Development Goals. It was also indicated that through its management support services, UNOPS could contribute to countries' objectives and expand their implementation capacity across all 17 Goals. The assessment pinpointed a number of sector-specific areas where UNOPS already has significant experience and technical expertise.

125. UNOPS stated that it recognized that the Goals were for Member States to achieve and the United Nations to support. It added that as a self-financing, non-programmatic United Nations entity, UNOPS was responsive to the needs of its partners and would build and deploy its technical expertise based on their demand. UNOPS also added that the strategic plan for the period 2018-2021 was currently being developed and would be presented to the Executive Board at its second regular session, in September 2017.

126. The Board is of the view that, notwithstanding the demand-driven nature of the UNOPS business model, in which the achievement of some Goals may feature more prominently than others, UNOPS has an implementation mandate and can therefore expand implementation capacity through direct and indirect contributions for countries to achieve the Goals and targets.

127. UNOPS replied that, through its consultative process and the supporting analysis for the development of its strategic plan for the period 2018-2021, it would consider appropriate measures to further focus the organization's contributions to the Goals and the 2030 Agenda for Sustainable Development.

128. **The Board recommends that UNOPS, while finalizing its strategic plan for the period 2018-2021, consider aligning its long-term business strategies and delivery practices with the requirements of the Sustainable Development Goals.**

129. UNOPS accepted the recommendation.

## K. Procurement activities

130. Procurement is one of the four core activities of UNOPS, which is managed by the Procurement Group at headquarters. UNOPS procures goods, services and works, not only for itself but also substantially for its partners and clients. The observations of the Board with regard to procurement are presented in the paragraphs below.

**Verification of vendors**

131. In response to the Board's recommendation (see A/68/5/Add.10 and Corr.1, chap. II, para. 51), UNOPS had informed the Board that it was mandatory for all suppliers who were awarded contracts to be registered in the United Nations Global Marketplace. There, the mandatory information required of the vendor is cross-referenced with databases of ineligible vendors maintained by UNOPS, the United Nations and the World Bank. It was added that vendors that have been sanctioned are automatically flagged and cases referred to the ineligibility administrator of UNOPS for review. UNOPS further informed the Board that vendor sanctions are now included in the oneUNOPS system.

132. UNOPS acknowledged that at present, 29,781 active vendors did not have a registration number in the United Nations Global Marketplace. UNOPS further informed the Board that the checks against the applicable eligibility lists were conducted during the evaluation of bids and verified upon final award, prior to creating the vendor profile in oneUNOPS.

133. The Board noted that, as at 28 February 2017, the sanctioned vendors list maintained by UNOPS had only 84 vendors, while the other ineligibility lists against which UNOPS verifies the validation of its vendors, such as (a) the United Nations ineligibility list; (b) the Consolidated United Nations Security Council Sanctions List; and (c) both the World Bank Corporate Procurement listing of non-responsible vendors and the World Bank listing of ineligible firms and individuals; had 400, 1,078 and 1,093 ineligible vendors, respectively (as on 15 March 2017).

134. The Board further noted that only 30 of the 84 vendors in the sanctioned vendor list were integrated in oneUNOPS. Thus, while the awards are registered through the oneUNOPS system, the process for checking against sanctions lists is currently manual, using the search functionality of the United Nations Global Marketplace.

135. The Board was informed that there was an initiative planned for the second half of 2017 to integrate the two vendor databases and synchronize the United Nations Global Marketplace with oneUNOPS. UNOPS also informed the Board that it was taking other steps, such as creating a webpage on the intranet, regarding vendor sanctions and the ineligibility list, providing training to staff and raising awareness through emails. UNOPS added that those steps would strengthen and automatize the checking of ineligibility lists. UNOPS also assured the Board that it would continue to improve the training, communication and e-sourcing functionalities in order to ensure that checks were conducted appropriately and as early as possible in the process, for example, when and/or if a vendor is invited to apply to a UNOPS business opportunity, or during the preliminary examination stage of the bid evaluation process, to ensure that no ineligible vendor appears as shortlisted for the awarding of a contract.

136. While acknowledging the assurances and appreciating the efforts being made to mitigate the risk of awarding contracts to ineligible vendors, the Board is of the opinion that an automated process of vendor verification would enable consistent application of the checks and enhance the integrity of the vendor database.

137. **The Board recommends that UNOPS integrate the lists of sanctioned vendors contained in other external vendor databases, such as the United Nations Global Marketplace, with oneUNOPS.**

138. UNOPS accepted the recommendation.

**Solicitations for procurements**

139. In accordance with clause 6.5.1 (b) of the Procurement Manual (in the present report, reference is made to revision 5 of the Manual, dated 1 May 2014), the deadline for submission of an offer should allow a vendor a sufficient number of days to prepare and submit an offer. The UNOPS Procurement Manual prescribes the minimum bidding time to be allowed to the bidder, as indicated in table II.8.

Table II.8
**Minimum solicitation period for bids**

| *Solicitation method* | *Requirements* | *Minimum bidding time (in calendar days)* |
|---|---|---|
| Request for quotation | All | 5 |
| Invitation to bid | Goods | 15 |
| Invitation to bid | Works | 15 |
| Invitation to bid | Services | 21 |
| Request for proposal | All | 21 |

*Source*: UNOPS Procurement Manual.

140. During 2016, UNOPS published 1,353 tenders, of which 145 were through its e-sourcing system, under different solicitation methods (requests for quotation, invitations to bid, requests for proposal and expressions of interest).[14] The Board noted that among the tenders published in the e-sourcing system, 34 had been cancelled. The Board observed that in nine of those cancelled solicitations (26 per cent), minimum bidding time had not been allowed. Following an examination of the reasons furnished by the Administration for the cancellation of those nine cases, the Board observed that no response had been received in three cases and that in three cases for which a response had been received, none of the bids received fulfilled the conditions of the bid.

141. Of the remaining 111 solicitations, which were not cancelled, the Board noted that in 59 cases, informal methods of solicitation were applied, while in 52 cases, formal solicitation methods were applied. In the cases where formal solicitation methods were applied, the Board observed that minimum bidding time had not been allowed to the vendors in 12 cases. The Board is of the opinion that, even though the Procurement Manual permits shorter solicitation periods than the minimum prescribed when justified, allowing less time than prescribed to the vendors for responding to solicitation without justification precludes the vendors from preparing comprehensive offers and affects both the fairness and competitiveness of the bidding process.

142. UNOPS, while agreeing that providing shorter than usual solicitation periods could be a factor in not receiving a sufficient number of bids, stated that it would actively monitor compliance with minimum solicitation periods through the appropriate UNOPS e-sourcing system indicators and would proactively address the matter with the offices responsible for such procurement activities.

143. **The Board recommends that UNOPS comply with its Procurement Manual in respect of observing the minimum number of days allowed for the**

[14] Only invitations to bid and requests for proposal are formal methods of solicitation. The remainder are informal methods of solicitation. For expressions of interest, the minimum bidding time is 10 days (see clause 5.3.2 of the Procurement Manual).

**submission of bids, in order to provide a vendor with a sufficient number of days to prepare and submit a bid.**

144. UNOPS accepted the recommendation.

**Preselection of the vendor and exception on the basis of preselection**

145. According to clause 6.8.2 of the Procurement Manual, preselection is where a funding source has selected a supplier for a particular activity and requested UNOPS to engage that supplier. In such cases of preselection, UNOPS shall not be accountable or otherwise carry any liability for the performance of the preselected supplier. Preselection, if not done in the project agreement itself, requires an official letter, naming the supplier, from an authorized officer of the funding source. Further, rule 118.05 (a) of the UNOPS financial regulations and rules provides for exceptions to the use of formal methods of solicitation, subclause (iii) of which pertains to situations in which "there has been previous determination with regard to an identical procurement activity, or there is a need to standardize the requirement following recent procurement activity".

146. During the scrutiny of contracts, the Board noted that in the Nepal operations centre, in two contracts,[15] vendors had been preselected on the basis of letters signed by persons other than the signatory of the engagement. Further, the Board observed that in two more contracts,[16] the contractor who was preselected in one of the contracts had been selected by exception under rule 118.05 (a), subclause (iii) of the financial regulations and rules. As the earlier preselection of that vendor was not in accordance with the provisions of the Manual, exceptional selection of the contractor on those grounds lacked justification.

147. UNOPS, while assuring the Board that the relevant staff had been made aware and procedures put in place to prevent recurrence of such cases, stated that those cases have been reviewed and are being submitted to headquarters to be regularized. As regards the selection of the vendor for the subsequent contracts, the Nepal operations centre stated that the exception was not on the basis of a preselection, but on the basis that complex services had been purchased from a vendor and only the vendor who performed the initial services could realistically provide the required additional services. However, the records provided indicated that the exception had been granted under rule 118.05 (a), subclause (iii) of the financial regulations and rules, on the basis of earlier work awarded to that supplier on the basis of preselection.

148. **The Board recommends that UNOPS ensure adherence to the provisions of the Procurement Manual related to the preselection of vendors and to the exception provisions under the financial regulations and rules.**

**Acceptance of bids on the basis of budgeted and/or historical price**

149. Rule 118.05 (a) of the financial regulations and rules provides for approval of exceptions to the use of formal methods of solicitation by the Executive Chief Procurement Officer or authorized personnel. One of the exceptions is when there is no competitive market place for the requirement, such as where a monopoly exists; where prices are fixed by legislation or government regulation; or where the requirement involves a proprietary product or service. According to clause 8.9.3.3

[15] Development of a tool for mobile data collection and customization, enhancement and implementation of an information management system.

[16] Technical and support services for data collection using Android tablet (amended award value: $89,042) and implementation support services for data collection using an Android tablet application, in 17 districts (award value: $95,551).

of the Procurement Manual, in instances where direct contracting is justified, negotiations should be undertaken in the presence of at least two UNOPS personnel prior to the awarding of a contract, in order to ensure the best value for money. It was also stated that proper costing studies, market research, expert consultations and the verification of client references are essential activities, which must be performed prior to such negotiations.

150. In the Cambodia operational hub, in project 89692, the Board noted that the local contracts and procurement committee granted an exception from the formal method of solicitation, for a contract valued at $99,729 under rule 118.05 (a), subclause (ii), as the vendor was the only pre-qualified manufacturer of a specific drug. The Board observed that the price quoted in project 89692 was used as the benchmark for another procurement of the same drug in project 96055, which was also granted an exception from the formal method of solicitation. A similar instance was also noticed in another contract related to the project 96055.

151. The staff of the Cambodia operational hub stated that only one manufacturer met the criteria prescribed by the Global Fund to Fight AIDS, Tuberculosis and Malaria for each of the medicines, in each of the cited invitations to bid. The staff further stated that the direct procurement on the basis of an exception proceeded only because it is a mandatory requirement of all Global Fund grantees that the medicines procured meet the prescribed criteria. The staff added that market research and expert consultations were conducted in each of these procurement cases, using the Global Fund price referencing tool, which provides a comparison of prices from all other sources of demand for the same product and provides an analysis of the minimum, median and maximum price for each medicine, and that in each of the procurement cases, the price awarded is the same as the minimum price available in the market for the medicine procured.

152. The Board noted that the Global Fund quality assurance policy clearly stated that the Global Fund requires its grant recipients to comply with applicable procurement laws and provides the referencing tool only for the identification of products and/or manufacturers that comply with the Global Fund's quality assurance policy. Further, it stated that the list is not designed to replace any applicable and legally required procurement processes. Further, the Global Fund price referencing tool also indicated data limitations of the tool, such as misreporting, the inclusion of additional costs and errors in the database, which may have an impact on the prices reflected. While noting the use of the Global Fund price referencing tool by UNOPS, the Board is of the view that a periodic verification of the prices indicated in the Global Fund price referencing tool, through other means, would be desirable.

153. **The Board recommends that UNOPS make efforts to validate the best price available by way of a formal solicitation method, costing studies, market research and expert consultation, wherever feasible.**

**Data integrity issues in the supplier database**

154. On 1 January 2016, when UNOPS switched over from the Atlas system to the oneUNOPS system, the existing database was migrated. UNOPS management was informed by the Infrastructure and Project Management Group that the migration of vendor data (supplier data) was carried out successfully and that the data had also been tested and cleaned. However, the Board noted that the Internal Audit and Investigations Group, in one of its reports, highlighted several inconsistencies in the supplier database. In a spot check of the supplier database, the Board observed the following:

(a) Cases without bank account information or more than one supplier with the same bank account;

(b) Invalid email and telephone number details;

(c) UNOPS email address given for suppliers registered as a company;

(d) Vendors with more than one supplier identity number.

155. UNOPS acknowledged the need for data reviews, but expressed doubt as to the extent to which system rules could fully address supplier data quality checks. The Board noted that the existence of invalid data in the supplier database at UNOPS highlighted the lack of adequate action having been taken to clean up and validate those data. The Board further noted that the Internal Audit and Investigations Group had also flagged those issues recently. The Board is of the opinion that a strong system of automated controls and alerts combined with regular data reviews are needed as a matter of priority.

156. **The Board recommends that UNOPS review its existing standard operating procedures relating to vendor database management to ensure that it has a strong system of checks with defined formats for data, data validation and alerts regarding duplicates in the oneUNOPS system, in order to enhance the quality of data sets.**

157. UNOPS accepted the recommendation.

## L. Human resources management

158. Personnel costs accounted for $319 million (41 per cent) of UNOPS expenses in 2016. As at the end of December 2016, UNOPS had 10,978 personnel, an increase from 9,852 in 2015. Of those members of personnel, 843 were staff and 10,135 had individual contractor agreements. The 10,135 individual contractors include 3,222 UNOPS personnel and 6,913 partner personnel. The Board noted that a significant proportion of UNOPS personnel (79 per cent) continued to be on local and international individual contractor agreements.

159. While transactional issues such as leave and payroll are handled by the Global Shared Service Centre in Bangkok, the People and Change Practice Group is responsible for organization-wide human resources management.

### Background checks for new recruits

160. In response to the Board's recommendation in its previous report (A/68/5/Add.10 and Corr. 1, chap II, para. 51), UNOPS stated that it had signed a contract with a background check service provider and the service was being used for specific cases, where deemed necessary. UNOPS further stated that it did not believe that it was cost-effective for those checks to be conducted for personnel in key functions. Accordingly, conducting background checks through the agency contracted for the purpose was not made mandatory and was left at the discretion of hiring managers.

161. The Board noted that no guidance was available as to the key or critical posts for which such checks were considered to be desirable. Moreover, hiring managers were not required to record any justification for opting not to conduct background checks.

162. The Board observed that, out of an overall workforce of 4,065 personnel,[17] as at 31 December 2016, 1,479 had been recruited in 2016. The recruitments during 2016 included local individual contractors (levels 1-10), international individual contractors (levels 1-4) and even international Professional staff (P-2-D-2 levels).

[17] 843 staff members and 3,222 individual contractors.

163. UNOPS confirmed that background checks were conducted in no more than 10 cases out of the 1,479 recruitments in 2016. As the recruitments were conducted in a decentralized manner, the information on specific cases was not readily available for all UNOPS offices. Of the 61 staff hired during 2016 at UNOPS headquarters, UNOPS informed the Board that background checks were conducted only in eight cases, seven of which were for posts pertaining to internal audit. The Board noted that background checks were not conducted in any of the recruitments to the core functional groups, namely, procurement, project management and finance.

164. The Board observed that nearly 79 per cent of the UNOPS workforce comprised non-staff personnel. In addition, UNOPS provides services to clients and partners in several fragile and vulnerable geographical regions, where standards of paper certification for education and experience could be weak. Hence, the Board is of the opinion that there is a significant risk of the credentials of the workforce being found to be inaccurate, at a later stage. While the Board acknowledges the decision not to make comprehensive background checks mandatory for all posts, the Board would encourage UNOPS to lay down guidance for hiring managers specifying the criteria (criticality of the post, level, workstation) for deciding on the need for background checks.

165. UNOPS informed the Board that such background checks were a new concept and that, until two years ago, UNOPS was the only United Nations system organization that had a background checking mechanism in place. UNOPS added that, as regards checking as part of general recruitment processes, it had a mandatory reference checking mechanism in place for all hires, which often included speaking to candidates' former supervisors and inquiring about the accuracy of data, as well as performance-related questions. UNOPS further stated that it was seen to be better to wait until there was agreement on a United Nations system-wide approach for background checks. It was also stated that UNOPS was working together with other United Nations system organizations on setting up a centre in Bonn, Germany, to conduct background checks on behalf of all system entities.

166. In the Board's view, pending the setting up of an elaborate United Nations-wide system, using the available system would enhance the effectiveness of the process.

167. **UNOPS agreed with the Board's recommendation that it finalize guidance on the conduct of background checks for new recruits.**

**Inclusive and accessible workplace for employees with disabilities**

168. The General Assembly adopted resolutions 61/106, 64/154, 65/186 and 66/229, in which the Assembly requested the Secretary-General to take action towards the creation of a non-discriminatory and inclusive working environment for staff members with disabilities at the United Nations Secretariat. The United Nations established a formal policy on employment and accessibility for staff members with disabilities in the United Nations Secretariat, issued in Secretary-General's bulletin ST/SGB/2014/3 of June 2014.

169. The Board reviewed the status of implementation of the aforementioned policy at UNOPS. The Board observed that UNOPS had neither formulated its own specific policy guidelines similar to ST/SGB/2014/3, nor issued any administrative instructions to implement the provisions of the Secretary-General's bulletin. The Board further noted that UNOPS did not have data regarding its current staff with disabilities, persons with disabilities recruited by UNOPS or resigning from their roles at UNOPS (with their reasons for leaving the organization), nor any data regarding requests from such staff for reasonable accommodation or their feedback

on access-related problems regarding the workplace. The Board is of the opinion that the availability of those data would support better policymaking and the implementation of accessibility activities, with the participation of staff with disabilities, towards the creation of a non-discriminatory and inclusive working environment for staff members with disabilities.

170. UNOPS stated that it considered the scope of ST/SGB/2014/3 to be limited to the United Nations Secretariat and added that there were sensitive areas of work requiring full attention during 2016 and that other agenda items could not be prioritized. It added that UNOPS had recently recruited a diversity and inclusion specialist, so as to be better suited to address diversity and inclusion issues. UNOPS further stated that it would consider including prescriptive directives on the subjects covered in ST/SGB/2014/3, in the next revision of its practice and quality management system, with an approximate issuance date of March 2018. UNOPS explained that there had been progress made regarding physical access for new buildings constructed by UNOPS and added that UNOPS had published a design manual and had issued an administrative instruction (AI/IPMG/2016/01) that made it mandatory for all buildings that are designed or modified to comply with those criteria. UNOPS acknowledged that the status of older buildings, the employment of personnel with disabilities, access to information by personnel with disabilities and raising awareness among personnel of such issues were all areas that still required further attention. UNOPS stated that data regarding disabilities had not traditionally been captured in the United Nations system and that with the migration of the enterprise resource planning system, focus was placed on ensuring business continuity, rather than adding new non-business-critical attributes to the system.

171. UNOPS also stated that it had promulgated Executive Office directive 3, dated 13 March 2017, on occupational health and safety and social and environmental management, which committed UNOPS to ensuring that there was no discrimination of any form at the workplace. Operational instructions supporting that policy were awaiting promulgation, which would allow for the formalization of the processes that had already begun in some UNOPS duty stations, where the workplaces were assessed for risk and inspected to determine whether access and workstation design were suitable for all users, including employees with disabilities. UNOPS was in the process of conducting a needs assessment on that topic.

172. The above assertions of UNOPS should be seen in the light of the fact that UNOPS, in its Executive Office directive 1, dated 13 March 2017, reiterated that all UNOPS legislative instruments should comply with the instruments promulgated by organs of the United Nations with authority over the Executive Director, such as the General Assembly, the Economic and Social Council, the Executive Board of UNOPS and the Secretary-General. In December 2015, the General Assembly, in paragraph 4 of its resolution 70/170, sought a report from the Secretary-General on, inter alia, the status and application of existing regulations relating to reasonable accommodation and the status of facilities and services relating thereto and areas that need improvement to ensure full accessibility, following universal design, and reasonable accommodation within the United Nations system, including its agencies, funds and programmes, and regional offices.

173. As an organization that is committed to creating sustainable construction and infrastructure for United Nations system entities and governmental and non-governmental organizations, UNOPS is expected to lead national and international efforts towards the full realization of an inclusive and accessible United Nations for persons with disabilities and to support the Sustainable Development Goals, as inclusiveness is a basic tenet for the implementation of the 2030 Agenda.

174. **The Board recommends that UNOPS formulate policy directives and implementing instructions for the creation of an inclusive and accessible workplace for employees with disabilities.**

175. **The Board further recommends that, as an enabling action towards making the organization more inclusive and accommodating towards people with disabilities, UNOPS endeavour to maintain data on employees with disabilities and complete an accessibility assessment of all its offices, digital platforms and processes, as a matter of priority.**

176. UNOPS accepted the recommendations.

## M. Travel management

177. In accordance with paragraph 4.1 of UNOPS organizational directive 11 (3rd revision) issued by the Executive Director on 29 December 2011, headquarters directors, regional directors, operations centre directors and project centre managers shall prepare quarterly travel plans for official duty travel, within and outside of the country/ies and/or business unit/s under their responsibility. Paragraph 4.3 of the directive provides that requests for official duty travel not included in the quarterly travel plans (ad hoc travel), must be submitted for approval. Such requests for ad hoc official duty travel must include justification as to why the travel was not included in the quarterly travel plan. Further, under paragraph 2.1.7 of UNOPS administrative instruction AI/CSPG/2014/01 (Rev. 4), dated 9 June 2016, it is mentioned that, in order to obtain better pricing on flight tickets for UNOPS, the traveller should aim to book the ticket a minimum of seven days in advance of departure. Any booking initiated fewer than seven days ahead of time will be captured in UNOPS travel reports.

178. The Board observed that, out of a total of 256 trips, at a total cost of $2.42 million, pertaining to travel of UNOPS headquarters personnel in 2016, there were 36 cases, for a total amount of $0.22 million, in which tickets were not booked at least seven days in advance of travel. The Board also noted that the bookings initiated fewer than seven days in advance of departure were not captured in travel reports.

179. UNOPS could not provide quarterly travel plans for the year 2016. UNOPS, in its reply, stated that it had stopped the practice of quarterly travel plans, owing to the nature of the work and mandate of UNOPS, and because early travel planning could be difficult and cause the loss of resources spent on tickets, as the most economical tickets did not have flexibility, according to current travel industry practices. However, no authority for the discontinuation of the practice could be provided. UNOPS stated that owing to an oversight, organizational directive 11 had not been revised, but that this would be corrected as soon as the new modality had been identified. The Board, however, is of the opinion that a quarterly travel plan is a useful enabling tool for effectively monitoring ad hoc official duty travel.

180. **The Board recommends that UNOPS ensure the implementation of its policy regarding the booking of tickets at least seven days in advance of the travel date. Systems should be enabled to capture the data related to booking, to allow for better monitoring.**

181. **The Board further recommends that UNOPS ensure regular preparation of a quarterly travel plan as an enabling tool for effectively monitoring ad hoc official duty travel and making cost-effective flight reservations.**

182. UNOPS accepted the recommendations.

## N. Management disclosures

### Write-off of losses of cash, receivables and property

183. Management has informed the Board that, in 2016, it had formally written off assets in the amount of $6,927,236, including overspending of $106,000[18] and project charges of $232,000 that were rejected by clients. As at 31 December 2016, management had also reported provisions of $3.9 million for claims and onerous contracts.

### Ex gratia payments

184. Management reported no ex gratia payments in 2016. However, greater attention should be paid to review processes to ensure that transactions of this nature are identified, whatever their magnitude.

### Cases of fraud and presumptive fraud

185. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements in such a way that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

186. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that have been brought to its attention. The Board also enquires as to whether management has any knowledge of actual, suspected or alleged fraud. The Administration has informed the Board that there were 26 fraud cases in 2016, with a monetary impact of an estimated $267,534. In addition, the Administration indicated that only 6 of the 26 cases had a monetary impact.

187. During its audit, the Board noted that UNOPS had undertaken a fraud risk assessment of its newly implemented oneUNOPS enterprise resource planning system, conducted by a consultant, to identify areas of the business that could be susceptible to risk. However, the recommendations made in the assessment to mitigate those risks had been only partially implemented, as of May 2017. The Board was informed that the Internal Audit and Investigations Group planned to review the status of recommendations later in 2017, with the assistance of the consultant.

[18] Overspending occurs when UNOPS has incurred expenditure, in excess of agreed programme budgets with clients, and is therefore extracontractual.

## O. Acknowledgement

188. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and the Deputy Executive Director of UNOPS and the members of their staff.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

17-10826

# Annex

## Status of implementation of recommendations up to the year ended 31 December 2015

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 1 | A/67/5/Add.10, chap. II, para. 48, 2010-2011<br>A/67/5/Add.10, chap. II, annex, 2010-2011 | Draw lessons from its existing projects and consider measures to enable it to close projects in time, and address the backlog of projects needing closure.<br>Analyse all currently listed projects and identify projects to be closed. | The closure team managed to close 245 projects in 2016 and, as at 27 March, 147 in the first quarter of 2017. There are 40 projects to be closed, 19 of which are at the final stage of closure and awaiting client confirmation to proceed; 21 projects are to be moved to the final stage of closure. The team is still working closely with the country offices on the remaining projects. | UNOPS has indicated that it would implement the recommendation by October 2017. | | X | | |
| 2 | A/68/5/Add.10 and Corr.1, chap. II, para. 31, 2012 | Increase the visibility of funding provided for end of service liabilities by establishing a separate reserve account for after-service benefits. | A separate portfolio has been set up for post-employment benefits as at 1 January 2016. | The Board notes the creation of a separate portfolio for post-employment benefits in 2016 and considers the recommendation implemented. | X | | | |
| 3 | A/68/5/Add.10 and Corr.1, chap. II, para. 44, 2012 | Appoint a fraud risk owner, or senior risk officer, at a suitably senior level, to be accountable for the active management of fraud risks throughout UNOPS activities; perform a comprehensive organization-wide fraud risk assessment to identify the major types of fraud risk that UNOPS faces; and define UNOPS tolerance to different types of fraud risk and ensure that fraud controls are commensurate with that risk appetite. | The Director of the Risk and Quality Group has been appointed and is accountable for active management for risk across UNOPS, including fraud risk. An organization-wide fraud risk assessment, including risk tolerances and the assessment of controls, is ongoing and will be concluded in December 2016. An enterprise risk management process, facilitated by the Risk and Quality Group, is being conducted across UNOPS to assess, monitor and take action against the respective risk profile at the country, hub, regional, cluster and corporate levels. Through the enterprise risk management process, relevant tactical and strategic risks, as well as emerging threats and opportunities, are mapped by conducting interviews with relevant personnel and assessed by applying deep-diving and scenario-analysis techniques to prioritize key risks for strategic objectives and planning at the country, hub, regional and corporate | The Board notes the establishment of the Risk and Quality Group; however, work on identifying specific fraud risk and risk appetite is ongoing and more needs to be done to engage with the potential fraud risks faced by UNOPS. UNOPS needs to work on its enterprise risk management system and put in place risk registers at all levels. | | X | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | | levels. The assessment of risk also considers key areas emerging from the opportunity and engagement acceptance and quarterly assurance processes. The review includes the consideration of external data and information, as available and relevant. | | | | | |
| 4 | A/68/5/Add.10 and Corr.1, chap. II, para. 67, 2012 | Examine the extent of changes to agreements and the causes of delays in the completion of projects throughout its infrastructure portfolio. | The quantitative analysis of a sample of project costs and time extensions has been completed in accordance with the feedback received from the Board of Auditors through the latest audit report for the year ended 31 December 2015. | The Board notes the quantitative analysis of a sample of project costs and time extensions conducted by the administration. | X | | | |
| 5 | A/68/5/Add.10 and Corr.1, chap. II, para. 82, 2012 | Develop a mechanism to generate better information on the post-completion performance of buildings. | The revised design-planning manual for buildings is further delayed as a result of limited internal capacity and other more urgent initiatives. The manual is now proposed for revision in early 2018. | The Board notes with concern that the issue of updating the design-planning manual for buildings has been further delayed and the new target is June 2018. The Board recommends early action from UNOPS to implement the recommendation. | | X | | |
| 6 | A/69/5/Add.11 and Corr.1, chap. II, para. 34, 2013 | Take practical steps to implement enterprise risk management strategies, policies and procedures across the entity without further delay. Specifically:<br>• Identify, document and assess key risks to achieving strategic objectives<br>• Regularly update and monitor risk information that can be aggregated at the entity level | UNOPS adopted the approach to risk and quality in 2016, with a planned progressive roll-out beginning with the opportunity and engagement acceptance process, which launched through oneUNOPS in October 2016, followed by the quarterly assurance process, which monitors engagement level risks and was launched in oneUNOPS on 1 April 2017. An offline risk register for implementation risk management at the project level has been developed in line with the revised risk and quality framework and the opportunity and engagement acceptance process, and an online version is being tested. | The Board notes the work being undertaken on the risk framework and has reported on progress to date. The Board remains concerned about the delayed implementation of risk management and considers the recommendation to be under implementation. | | X | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | • Document risk tolerances so that they are understood and applied throughout the organization<br>• Use risk registers to record the likelihood of a risk materializing, the impact of the risk, the proposed mitigating actions and the assessed level of risk post-mitigation<br>• Assign risk owners to take responsibility for monitoring and controlling each risk | An enterprise risk management process facilitated by the Risk and Quality Group is being conducted across UNOPS to assess, monitor and take action against the respective risk profiles at the country, hub, regional, cluster and corporate levels. Through the enterprise risk management process, relevant tactical and strategic risks, as well as emerging threats and opportunities, are mapped by conducting interviews with relevant personnel and assessed by applying deep-diving and scenario-analysis techniques to prioritize key risks for strategic objectives and planning at the country, hub, regional and corporate levels. The assessment of risk also considers key areas emerging from the opportunity and engagement acceptance and quarterly assurance processes. The review includes the consideration of external data and information, as available and relevant.<br>Risks assessed at the engagement, country, hub, regional, cluster and corporate levels are consolidated and prioritized annually to determine the overall UNOPS risk profile for review and strategic decision-making.<br>Tolerances have been established through the revision of the Engagement Acceptance Committee criteria, and will be further defined as the implementation of the risk and quality framework continues, through decisions made by the Executive Office during the annual risk review.<br>Facilitated by the Risk and Quality Group, the UNOPS risk profile is presented to the Executive Office during an annual risk review.<br>Roles and responsibilities are clearly outlined in the risk and quality framework, in line with the governance, risk and compliance framework and the three lines of defence model.<br>The implementation of the enterprise risk management process, with regional, country, hub and corporate risk assessments, has been ongoing since January 2017. The methodology has been developed and the tools/templates are being tested | | | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification: Implemented | Under implementation | Not implemented | Overtaken by events |
|---|---|---|---|---|---|---|---|---|
| | | | in the first round of implementation. Requirements for reporting and monitoring at all levels have been established as part of the enterprise risk management process, and include clearly assigned risk ownership.<br>UNOPS will conduct the annual risk review in April 2017.<br>The risk policy will be drafted in accordance with the approved list of organizational directives, with the support of a new legislative framework committee.<br>UNOPS considers that steps have been taken to institute an enterprise risk management process, including strategies, policies and procedures in accordance with the recommendation. The framework has been developed and the roll-out is ongoing. It is expected that the enterprise risk management process will run as business as usual as of the end of 2017. | | | | | |
| 7 | A/69/5/Add.11 and Corr.1, chap. II, para. 75, 2013 | The Internal Audit and Investigations Group should, in setting its work programme for 2015, and on the basis of the results of the fraud risk assessment in 2014, consider carrying out specific audit work to examine controls covering the risk of fraud in procurement. | The organization-wide fraud risk assessment was conducted in 2016. In 2016, the Internal Audit and Investigations Group performed a fraud risk assessment on oneUNOPS with specific emphasis on fraud risk in procurement. Some 17 controls covering the risk of fraud in procurement were identified. In addition, as part of the Internal Audit and Investigations Group's continual audit tool, and in the light of the new governance, risk and compliance framework, UNOPS has undertaken a number of internal reviews of controls covering fraud risk in procurement and issued two reports on that aspect in 2016. The main issues identified were:<br>• Duplicate vendors in the system and vendors who had missing information. Owing to the severity of the issue, a separate engagement is under way to assist with the vendor clean-up process for UNOPS.<br>• Weak controls in transactions with sanctioned vendors were identified. | The Board notes the completion of the fraud risk assessment and the specific audit work under way on the basis of risks identified. The recommendation is considered implemented. | | X | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | | • There was no integration of United Nations Global Marketplace sanction lists with oneUNOPS. Manual checks are being done, and the weakness has been communicated to Procurement.<br>• The possibility that payments were made that might have exceeded the amount specified in the purchase order is being tested.<br>• Though not required, the Internal Audit and Investigations Group is considering a review of the new "UN Web Buy Plus" platform and e-sourcing in 2018 to see how well UNOPS is prepared for a cyberattack. | | | | | |
| 8 | A/70/5/Add.11 and Corr.1, chap. II, para. 26, 2013 | Review the basis of its directly attributable support costs and management fees to ensure consistency, equity and transparency in the light of the principles of the new pricing model. In particular:<br>(a) Ensure that reporting on the mine action project reflects the scale of directly attributable support costs currently embedded in programme costs in addition to management fees charged;<br>(b) Review recovery rates on individual contractor agreements managed for partners to ensure that charge rates are equitable across partners and better reflect the actual costs incurred. | The discussion with the Controller of the United Nations Secretariat on how to report the centrally managed direct costs has been concluded and a new regime has been implemented.<br>The UNOPS cost-recovery model differentiates between direct project costs (costing), which are all costs incurred for implementing a project, and indirect costs (pricing), which represent the fees collected to cover UNOPS core functions, such as strategic leadership, representation, policy setting and United Nations governance, and therefore are not linked to the project's transactions. The fees are calculated as a percentage of the direct cost of providing the services agreed upon with the partners. | The Board notes the action taken and considers the recommendation implemented. | X | | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 9 | A/70/5/Add.11 and Corr.1, chap. II, para. 36, 2014 | Reconfirm the level of expected savings arising from the implementation of enterprise resource planning and seek to obtain viable benchmark cost data to inform a review of the realized process cost benefits. | Tolerances have been established through the revision of the Engagement Acceptance Committee criteria, and will be further defined as the implementation of the risk and quality framework continues, through decisions made by the Executive Office during the annual risk review. | The Board notes progress on the issue. However, UNOPS has yet to establish full measurement of total savings. The recommendation is therefore considered to be under implementation. | | X | | |
| 10 | A/70/5/Add.11 and Corr.1, chap. II, para. 39, 2014 | Further explore opportunities to improve business process efficiency by standardizing work practices and processes, delegations of authority and alignment of access rights to improvements in the internal control framework and based on the needs of the business. | Details of the improvements and some of the process-related changes implemented were provided to the Board of Auditors during 2016. UNOPS has also adopted a process of ongoing improvement in consultation with its stakeholders to seek opportunities for increased process efficiency. The process of improvement will therefore be continual and ongoing. | The Board notes that UNOPS has begun to analyse workflows for business processes. The Board further notes that the completed fraud risk assessment identified weaknesses in the internal control framework, including with regard to the segregation of duties and the reviewing of exceptions. Revised processes addressing these issues have yet to be implemented. | | X | | |
| 11 | A/70/5/Add.11 and Corr.1, chap. II, para. 58, 2014 | (a) Obtain feedback from practice groups on the performance of the People and Change Practice Group as a business partner;<br>(b) Manage and monitor the benefits of recent organizational reforms, including the Global Shared Service Centre; | (a) The People and Change Practice Group has obtained feedback on its performance from the other groups, as acknowledged in the latest audit report. Owing to the demands and challenges of the implementation of the new enterprise resource planning system, the priorities of the Group were focused on payroll and the benefits and entitlements administration processes. Therefore, the implementation of the remaining elements of the recommendation is planned to be completed in 2017. | The Board notes the progress made and considers the recommendation to be under implementation. | | X | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | (c) Develop a measure covering the cost-efficiency of the human resources function, such as the human resources staff to workforce ratio. | (b) The UNOPS Global Shared Services Centre is a global delivery platform for cost-effective transactional services that aims to be a centre of excellence and enhance the operational capacity of UNOPS, increase efficiency and standardize systems and procedures. The business case leading to the implementation of the Centre cannot be considered out of context. UNOPS is investing in its enterprise architecture and creating innovations with regard to its information and communications technology (ICT) infrastructure, which leverages and integrates the UNOPS delivery platform, leading to additional benefits.<br>The first year the UNOPS Global Shared Services Centre ran at full capacity was 2016. This allowed for: (a) a comparison of the Centre's "direct cost" versus the cost of procuring the services externally; and (b) the evaluation of additional benefits created through the upgrading of the UNOPS system architecture.<br>In 2015, UNOPS was charged service fees for payroll and benefits and entitlements services only of $2.5 million. During 2016, the UNOPS Global Shared Services Centre incurred direct costs of $2.88 million, which included additional service offerings as set out below.<br>(c) The additional benefits as listed below outweighed the extra $380,000 in direct cost spending by a multiple thereof:<br>(i) Integration of Global Shared Services Centre services into the UNOPS enterprise resource planning architecture enables efficient personnel and payroll administration services, the administration of individual contract agreements and payroll for those agreements, supplier approval, the calculation of daily subsistence allowance for travel and the processing of financial transactions, including UN Web Buy Plus payments. The Centre is set up to flexibly respond to an expansion of volume in current services as well as to assume additional types of | | | | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | | transactions in the future, thereby leveraging the initial investment;<br>(ii) The independence of the UNOPS Global Shared Services Centre has a positive impact on the ability of UNOPS to deliver services to partners. It enables the expansion of UNOPS human resources services to provide cost-efficient solutions to United Nations partners. From 2015 to 2016, UNOPS-administered partner personnel increased by 31 per cent to 6,913, which led to an increase in UNOPS delivery, net engagement revenue and development outcomes;<br>(iii)Response time decreased with regard to service provision and turnaround.<br>With regard to (ii), the Global Shared Services Centre is part of the Corporate Support Group's annual target agreement, which establishes key benchmarks and objectives. The Centre's annual work plan defines key performance indicators for each Centre work package. Benefits and entitlements administration process and turnaround times are established and agreed by the People and Change Practice Group. | | | | |
| 12 | A/70/5/Add.11 and Corr.1, chap. II, para. 62, 2014 | The People and Change Practice Group, working with the other practice groups, collect and assess information on the knowledge and experience of its workforce to inform future skills and workforce planning. | UNOPS identifies gaps in the skills of its existing workforce through the performance assessment mechanism and through the establishment of pools of experts in different business-critical roles. UNOPS devotes resources to train its workforce in order to reduce skills gaps and has developed robust selection and management processes to identify, place and rotate talents and form talent benches for the various business-critical roles. | The Board notes that, at the headquarters level, in the People and Change Practice Group, there is still a need for a more systematic analysis of skill sets available from the present workforce, and for an analysis of skills gaps with a view to assessing future requirements. | | | X | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 13 | A/70/5/Add.11 and Corr.1, chap. II, para. 67, 2014 | (a) Develop clear business-led criteria for assessing requests from personnel to change engagement terms from staff to an individual contractor agreement.<br>(b) Monitor the impact of this policy on the workforce. | UNOPS has established criteria to determine if a position warrants being filled by a staff member on an individual contract agreement when such individuals reach the four-year mark as part of the functional review process.<br>The criteria are also applied to requests coming from staff contract holders who wish to switch to individual contract agreements. | In view of the steps taken, the recommendation is considered implemented. | X | | | |
| 14 | A/70/5/Add.11 and Corr.1, chap. II, para. 70, 2014 | Monitors turnover rates as a result of resignations, to inform its workforce planning. | UNOPS has reviewed the turnover caused by early resignations and separations in 2015, as acknowledged by the Board in its current report. UNOPS will continue to monitor and analyse turnover rates. | No analysis of turnover could be provided for 2016. Regular analysis of turnover will constitute full implementation of the recommendation. The recommendation is considered to be under implementation. | | X | | |
| 15 | A/70/5/Add.11 and Corr.1, chap. II, para. 75, 2014 | (a) Fully test future business case assumptions to ensure that they are supported by evidence and adequately reviewed;<br>(b) Closely monitor the impact of changes to terms for local contractors to ensure that the expected benefits are realized in practice;<br>(c) Implement measures to address the very high turnover levels among international individual contractors, subject to a careful analysis of the causes of turnover and characteristics of such positions. | The first two parts of the recommendation have already been addressed by UNOPS, as acknowledged by the Board in its latest report. For particular categories of international individual contractors, UNOPS has established talent benches, which among other things are expected to reduce turnover rates. For example, current project managers on international individual contractor agreements may qualify for inclusion in the talent bench and therefore would be able to opt for available positions, which has a positive impact on career progression and job security. With regard to the introduction of further measures, UNOPS will consider whether the turnover levels among international individual contractors as a whole need to be reduced and, if so, during 2017 will consider introducing additional measures if they are found to be cost-efficient. Considering the ongoing nature of the activities, UNOPS believes that the recommendation has substantially been addressed. | The analysis and measures to retain talent need further streamlining. | | X | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification: Implemented | Under implementation | Not implemented | Overtaken by events |
|---|---|---|---|---|---|---|---|---|
| 16 | A/70/5/Add.11 and Corr.1, chap. II, para. 81, 2014 | Implement a system for reliable reporting and analysis of recruitment processing times, covering the period from when a vacancy first occurs through to the post being filled. | From the current data from the Global Personnel Recruitment System for those vacancies that have been finalized in the system, UNOPS can report on an average recruitment time, from the posting of a vacancy until a recommendation is finalized, of 63 days for all positions for 2016. | The Board notes that the reporting system is available. Therefore, the recommendation is considered implemented. | X | | | |
| 17 | A/70/5/Add.11 and Corr.1, chap. II, para. 88, 2014 | Evaluate the impact of its recent additional investment in training, including as to whether the type and distribution of training provided is addressing the gaps between current workforce skills and future business needs. | During 2016, funding for learning programmes was assigned on the basis of key business priorities indicated by the different groups, as gaps needed to be covered in terms of skills in order to respond to current and future business needs. During the first two quarters of 2016, data was collected on the participation of target audiences, geographical distribution, role and gender distribution and the evaluation of quality. In addition, a careful follow-up was conducted in the second half of the year to ensure that funding was used to support the prioritized programmes. UNOPS also conducted an analysis of impacts on the basis of data collected from the learning programmes conducted during the year. Finally, UNOPS developed and rolled out a new competency framework during the second half of 2016. This new competency framework allows UNOPS to further align future learning with corporate strategies. | The Board notes the plans of UNOPS to align future learning with corporate strategy and to evaluate impact in this regard, and therefore considers the recommendation to be under implementation. | | X | | |
| 18 | A/70/5/Add.11 and Corr.1, chap. II, para. 101, 2014 | Review the merit award scheme to ensure that it is consistently aligned to the achievement of its objective of a break-even. | The review is in process, but the completion will be as of the end of 2017 in order to include analysis on the work conducted during 2016. | The Board will await further progress on the review. The recommendation is therefore considered to be under implementation. | | X | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 19 | A/70/5/Add.11 and Corr.1, chap. II, para. 106, 2014 | Establish clear deliverables to monitor the progress made in implementing the new enterprise risk management plan in accordance with the agreed timetable, seeking to prioritize key elements such as the identification of top-level strategic risks and mitigations. | A complete implementation plan was developed and endorsed by the UNOPS Executive Office as of April 2016. The revised policies and concept notes were endorsed by 30 June 2016. | The Board notes developments in the progress of the risk management processes within UNOPS and considers the recommendation implemented. | X | | | |
| 20 | A/71/5/Add.11, chap. II, para. 15, 2015 | The Board recommends that UNOPS reassess the approved minimum level of operational reserves in order to take into account actuarial gains and losses previously incurred and the inclusion of property, plant and equipment. | The current operational reserve balance includes $14.2 million in actuarial gains, which are earmarked as a reserve for any future actuarial losses, and another $4.5 million related to the expiration of the transitional provisions of IPSAS 17: Property, plant and equipment. After removing the impact of these two elements, a balance of $80.5 million remains. | The Board notes that a concept note has been submitted on the issue. However, the substantial issue of reassessing the operational reserves and putting the surplus to use remains to be done. The recommendation is considered to be under implementation. | | X | | |
| 21 | A/71/5/Add.11, chap. II, para. 16, 2015 | The Board further recommends that UNOPS consider how the reserve surplus might be utilized, in the context of a strategic review of UNOPS operational resourcing needs. | With the aim of utilizing a portion of the balance, a concept note has been approved that sets out how the application for the funding of investment projects will be presented and approved, and how such projects will be implemented and monitored. UNOPS is in the process of identifying such investment projects and their funding requirements. | | | X | | |
| 22 | A/71/5/Add.11, chap. II, para. 24, 2015 | The Board recommends that UNOPS review the adjustments it currently makes for the purposes of producing IPSAS-compliant statements and consider which, if any, it should conduct more regularly so as to further enhance the financial information provided to management during the year to inform decisions. | UNOPS has already reviewed the adjustments that it makes for the preparation of IPSAS-compliant financial statements and has confirmed that they are being done on a sufficiently regular basis. The reports that feed into the preparation of IPSAS-based financial statements are readily available and can be used for management reports that benefit from IPSAS-based information. | The reply has been verified and the recommendation is considered implemented. | X | | | |

| No | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 23 | A/71/5/Add.11, chap. II, para. 32, 2015 | The Board recommends that, if adopted, the new governance, risk and compliance framework be used to support the development of a statement on internal control to bring together the structure of the processes and the assurances that underpin them. | The implementation of the new governance, risk and compliance framework is ongoing.<br>Implementation of the governance aspect of the framework has made significant progress since the creation of a legislative framework committee, with the approval of the new list of policies for UNOPS in February 2017 and the promulgation of the first four Executive Office directives on a new legislative framework, a new governance model, occupational health and safety and social and environmental management, and financial regulations and rules, and the first Executive Office instructions on drafting and promulgation requirements for UNOPS directives and instructions in March 2017. | The Board notes the progress made in the development of the governance, risk and compliance framework. As the implementation is still ongoing, the recommendation is considered to be under implementation. | | X | | |
| 24 | A/71/5/Add.11, chap. II, para. 33, 2015 | The Board further recommends that UNOPS consider the implementation plan for the new framework, ensuring that it is sufficiently detailed, clear and realistic, incorporating sufficient training and communication plans, and has clear accountabilities and clear linkage to other UNOPS initiatives. | Work on the new organizational directives and organizational instructions has started with the new policy owners and supporting groups, and the directives are expected to be issued starting in May 2017.<br>A concept note on compliance was completed with the help of an external consultant, Deloitte. This was done further to a review of our compliance framework and practices. The recommendations set out in that note are in the process of being implemented. Responsibility for compliance may be transferred from the General Counsel to the Risk and Quality Group, as the new second line of defence unit.<br>The Risk and Quality Group has also made significant progress with regard to the risk management aspect of the governance, risk and compliance framework, especially at the engagement level. More progress will be made as UNOPS starts working on the new organizational directive on risk, compliance and financial controllership with the Group.<br>The external consultant, Deloitte, has made a proposal to help UNOPS begin on the internal control component of the governance, risk and | The plan has yet to be put in practice. The Board notes the progress made. The proposed risk management frameworks, which were planned for implementation in July 2016, have remained works in progress, and project-, country-, region- and organization-wide risk registers under the new frameworks have not been established. | | X | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification: Implemented | Under implementation | Not implemented | Overtaken by events |
|---|---|---|---|---|---|---|---|---|
| | | | compliance framework. This is to be discussed with the Finance Practice Group, which is now responsible for this aspect of the governance, risk and compliance framework.<br>The General Counsel is also coordinating with the units responsible for the other aspects of the governance, risk and compliance framework (culture management and ethics, performance management) to see where things stand and what needs to be done in this regard. More progress will be made as UNOPS begins working on the new organizational directives.<br>Discussions are also ongoing with the Executive Office with regard to the organizational consequences of the above. | | | | | |
| 25 | A/71/5/Add.11, chap. II, para. 38, 2015 | The Board recommends that UNOPS ensure that the certification of projects in line with the manuals is incorporated within oneUNOPS workplans, to reinforce compliance. | The workflow definition for the certification of projects has been completed and is expected to be incorporated into oneUNOPS in the first quarter of 2017.<br>Owing to specific priorities stemming from the corporate level, the completion of this process has been delayed. | The Board notes the progress and considers the recommendation to be under implementation. | | | X | |
| 26 | A/71/5/Add.11, chap. II, para. 44, 2015 | The Board recommends that, on receipt of the system controls and configuration report, UNOPS evaluate the recommendations made by the external consultant to consider whether it provides sufficient assurance and, in the event of any weaknesses, undertake a review to determine whether any such weaknesses have been exploited. | The fraud risk assessment report was issued in October 2016. Following a review of the assessment, several risks have already been addressed and the remaining risks are planned to be addressed over time according to their associated priority and urgency. On the basis of this information, this recommendation is now considered addressed. | The Board notes that the recommendations of the fraud risk assessment have yet to be fully implemented and, to that extent, the recommendation is ongoing. | | | X | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 27 | A/71/5/Add.11, chap. II, para. 48, 2015 | The Board reiterates its previous recommendation that UNOPS obtain viable benchmark cost data to inform a review of the benefits arising from process improvements. | The process of procuring external consultants to assist in formulating the final benefits realization report has begun. This work has been delayed owing to various related changes, including changes in ICT management, effective October 2016, followed by an ongoing ICT change programme. | The Board notes the delay in finalizing and documenting a benefits realization plan with viable cost data. | | X | | |
| 28 | A/71/5/Add.11, chap. II, para. 49, 2015 | The Board recommends that future significant investments be subject to, in advance, a more robust analysis of process benefits and cost savings to better inform the evaluation of a project's success and to inform future implementation. | The benefits realization study is now being designed as part of a larger road map that contains various other streams of work to professionalize the ICT function after the changes in ICT leadership. The benefits realization report will be part of a larger effort to introduce a methodology within UNOPS to establish a baseline and measure the benefits of any ICT project, as a methodology does not exist at this time. | As the benefits realization report has yet to be finalized, this recommendation is considered to be under implementation. | | X | | |
| 29 | A/71/5/Add.11, chap. II, para. 52, 2015 | The Board recommends that a suite of key business reports and other critical reporting functions be agreed upon with users, to ensure that the benefits of oneUNOPS are being fully realized. | More than 100 reports tailored to the needs of UNOPS have been built and included in oneUNOPS thus far, and more will be added and refined on a continuing basis, taking into consideration upcoming needs and feedback. Considering that business-critical report requirements have been substantially addressed and taking into account the ongoing nature of this need, this recommendation is deemed to have been addressed. | The Board notes the progress made on the issue. The recommendation is considered implemented | X | | | |
| 30 | A/71/5/Add.11, chap. II, para. 58, 2015 | The Board recommends that UNOPS use the functionality of the oneUNOPS system to enable analysis of the value of its order book and to forecast future delivery and the management fee it will earn. | The database has been created according to specifications. Quality assurance of the data and the development of the order book dashboard are ongoing and scheduled to be completed in the fourth quarter of 2016. | The reply has been verified and the recommendation is considered implemented | X | | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| 31 | A/71/5/Add.11, chap. II, para. 63, 2015 | The Board recommends that UNOPS strengthen its engagement acceptance and risk management processes so that they are sufficiently robust to support the assessment of new or novel lines of business. | The revised opportunity and engagement acceptance process was launched in October 2016 and the quarterly assurance process will be updated in January 2017. The enterprise risk management framework is currently active and the country/regional/corporate risk assessments will be rolled out in 2017; other risk management processes are being aligned with the revised approach. The opportunity and engagement acceptance process, enhanced with the inclusion of a risk assessment, was launched in October 2016. | The Board notes that, while the revised opportunity and engagement acceptance process has been launched, the risk management process has yet to be put in place. The recommendation, to that extent, remains unimplemented | | X | | |
| 32 | A/71/5/Add.11, chap. II, para. 68, 2015 | The Board recommends that UNOPS build on recent progress by becoming more structured in its approach to business development strategy across its network of offices, through training and knowledge-sharing and by applying tools and templates developed at headquarters. | To address the recommendation, UNOPS has issued a guidance note defining responsibilities for business development across the organization. A business development network has been established to provide coordination, training and information throughout the organization. Renewal of all outreach plans has also been completed. Furthermore, a strategy has been defined for each donor. A system for the upgrading of market intelligence has been completed and key donor profiles have been updated. A draft strategy development template was developed with colleagues in field locations and shared with several regions and hubs. Discussions with key partners have been elevated to a strategic level. A two-day business development meeting was organized in Copenhagen, attended by more than two dozen UNOPS business developers from across the world and by partnerships teams from New York, Washington, D.C., Brussels, Geneva and Nairobi. The meeting was an opportunity to further cement the aforementioned business development tools and plans, listen to the business developers about their key needs, issues and strategies and develop a rhythm for working together in 2017. The opportunity and engagement acceptance process and a new business intelligence tool using Microsoft Power BI were demonstrated from a partnership perspective, and 60 users in the field were granted | The Board notes the steps taken by management and considers the recommendation implemented. | X | | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | | access to the tool in a pilot to test its functionalities in cooperation with the Business Improvement and Innovation Programme.<br>1. Partnerships retreat<br>Following the success of the partnerships retreat held in 2016, this event will be held every year to foster exchanges between partnerships practitioners around UNOPS. The next retreat is scheduled for October 2017.<br>2. Partnerships network<br>The partnerships network is now a recurring monthly event, where partnerships colleagues can share information and knowledge from headquarters and between themselves across UNOPS offices.<br>3. Pilot partnerships dashboards<br>Rolled out in parallel with the partnerships retreat in 2016, the pilot has since grown to more than 130 users with access to real-time data. Pilot users are representative of UNOPS presence, with users in both the field and at the headquarters level. As a business intelligence tool, Microsoft Power BI integrates the data collected in oneUNOPS through the opportunity and engagement acceptance process with external indicators of things such as the fragility of the Organization for Economic Cooperation and Development (OECD), country income classifications, geographic splits and sector breakdowns of the Creditor Reporting System with regard to OECD Development Assistance Committees.<br>4. Operations centre/hub/region strategy template<br>Partnerships support operations centres, hubs and regions with developing their strategies through, inter alia, Skype calls, missions, desk research and data preparation, and constantly update and improve the strategy template on the basis of the feedback and suggestions from the offices using it.<br>Partnerships also facilitated workshops on partnerships during sessions of the Project | | | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | | Management Foundation Course. Sessions of the Project Management Foundation Course occur four to six times a year and usually include 30 to 40 participants. | | | | | |
| 33 | A/71/5/Add.11 chap. II, para. 80, 2015 | To improve coordination within the United Nations system, the Board recommends that UNOPS revise its engagement acceptance processes to include identifying where there is value in involving other United Nations partners with a substantive mandate. | The revised opportunity and engagement acceptance process focuses on the identification of the service line and role as well as the engagement risks. The reviewer components have been strengthened with modifications to provide a more interactive platform for conducting reviews and involving other contributors, while the guidance emphasizes the need to involve subject matter experts. | The Board notes that the opportunity and engagement acceptance process has been revised. The recommendation is considered implemented. | X | | | |
| 34 | A/71/5/Add.11, chap. II, para. 84, 2015 | The Board recommends that UNOPS: (a) use the introduction of oneUNOPS as an opportunity to enforce offices' recording of leads earlier in their development; and (b) consider further steps to ensure adequate review time by the specialist reviewers. | The revised opportunity and engagement acceptance was launched in October, and included a revision of the guidance for the Engagement Acceptance Committee. The revised guidance focuses on the need to record opportunities early, particularly in situations where there might be high risks, and the importance of involving relevant subject matter experts early in development. The revised opportunity and engagement acceptance process in oneUNOPS includes a revision of the reviewer format, which allows developers to engage reviewers directly. | The recommendation is considered implemented. | X | | | |
| 35 | A/71/5/Add.11, chap. II, para. 88, 2015 | The Board recommends that the proposed new risk and quality framework be used to involve the Engagement Acceptance Committee at the earliest stage in high-risk engagements and that the new framework be used to strengthen engagement acceptance processes and guard against non-compliance. The Committee's terms of | The revised opportunity and engagement acceptance process in oneUNOPS includes notifications against the Engagement Acceptance Committee's criteria, which has been revised to be more concrete. Reviewers also support the identification of risks for escalation to the Committee. In addition, the Committee secretariat has undertaken an effort to analyse the submissions based on the risks in line with the risk and quality framework, thereby supporting the Committee in making informed decisions. The engagement acceptance policy will be revised to reflect the improved process in accordance with the guidance provided by the new legislative framework committee | The Board notes the steps taken by management and considers the recommendation implemented. | X | | | |

| No. | Document reference and audit report year(s) | Recommendations of the Board | UNOPS response | Board's assessment | Status after verification | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Implemented | Under implementation | Not implemented | Overtaken by events |
| | | reference should be reconsidered to ensure greater formality with respect to approval processes for higher-risk projects. | | | | | | |
| 36 | A/71/5/Add.11, chap. II, para. 90, 2015 | The Board recommends that, as part of its efforts to strengthen engagement acceptance processes, UNOPS take steps to prevent the practice of signing agreements without engagement authority, for example, by amending the oneUNOPS system to prevent non-compliance. | The Executive Director launched the revised list of organizational directives as part of the implementation of the governance, risk and compliance framework on 13 March 2017. The delegation of authority and accountability framework will fall under the new Executive Office directive No. 2, Organizational principles and governance model, as an Executive Office instruction. The Risk and Quality Group is the owner of the Executive Office instruction. The drafting of new policies will be supported by a new legislative framework committee. | The Board notes the response and the fact that this control has yet to be built in the oneUNOPS system. This is a matter of concern and the Board hopes that early action will be taken in this regard. | | X | | |
| 37 | A/71/5/Add.11, chap. II, para. 95, 2015 | The Board recommends that UNOPS: (a) conduct a comprehensive review of the pricing policy to consider how best to take risk into account in ways that are consistent, transparent and evidence-based; and (b) develop a policy for the use of accumulated financial surpluses arising from "risk increments" received but not ultimately required. | The Risk and Quality Group will draft the Executive Office instruction and ensure that the system functionalities are in line with the instruction. | The Board notes the progress made on the issue. The recommendation is considered to be under implementation. | | X | | |
| | **Total** | | | **37** | **14** | **23** | **0** | **0** |
| | **Percentage** | | | **100** | **38** | **62** | – | – |

# Chapter III
# Financial report for the year ended 31 December 2016

## A. Introduction

1. In accordance with the financial regulations and rules of the United Nations Office for Project Services (UNOPS), the Executive Director of UNOPS has certified the 2016 financial statements of the organization and is pleased to submit them to the Executive Board and the General Assembly, and to make them publicly available. The financial statements have been audited by the Board of Auditors, and its unqualified audit opinion and report are attached. Overall, UNOPS is financially robust and is continuing to make the necessary strategic investments in order to accomplish its strategic plan for 2014-2017.[19]

## B. Accountability and transparency as a core value of the United Nations Office for Project Services

2. The UNOPS strategic plan for 2014-2017 focuses on strengthening the capacities of the organization in its three main areas of delivery, namely, project management, infrastructure and procurement, with strategic emphasis on sustainability, focus and excellence.

3. In order to achieve those objectives, UNOPS continued to benchmark its organizational maturity against internationally recognized standards and best practices used by public and private organizations.

4. Achievements during 2016 included:

(a) UNOPS launched its new enterprise resource planning system on 1 January 2016 with the aim of enhancing its ability to provide efficient operational support to partners and providing a suitable system for the International Public Sector Accounting Standards (IPSAS), which it had adopted in 2012. The enterprise resource planning system will also improve the agility of UNOPS and allow it to further expand its provision of streamlined, high-quality and cost-effective transactional services in response to the operational needs of United Nations agencies and Member States;

(b) UNOPS launched a governance, risk and compliance framework with the aim of simplifying its governance structure and further empowering its managers. A revised legislative framework and a governance model were promulgated and a Legislative Framework Committee was established, comprising members of senior management. The Committee will guide the revision of UNOPS policies and procedures;

(c) An enterprise risk management process and system integrated into the organization's new enterprise resource planning system, "oneUNOPS", was also implemented, with a view to strengthening the opportunity and engagement acceptance process. The roll-out of the system at the country, regional and corporate levels, including a UNOPS risk profile, and its integration into oneUNOPS will continue in 2017;

(d) UNOPS maintained its global International Organization for Standardization ISO 9001 certification (quality management systems) and its ISO 14001 certification (environmental management systems) in Copenhagen, Kosovo,

[19] As calibrated through Executive Board decision 2016/19.

Afghanistan, Sri Lanka and the State of Palestine and added two new countries, Ghana and Myanmar;

(e) UNOPS also maintained its Occupational Health and Safety Assessment Series (OHSAS) 18001 certification, the internationally applied standard for occupational health and safety management systems. UNOPS operations in Denmark, Kosovo and the State of Palestine continued to meet the OHSAS 18001 standard, and coverage was extended to include Myanmar. UNOPS is committed to reducing the health and safety risks that its personnel and contractors face when working on infrastructure projects, which are some of its most potentially hazardous activities;

(f) By the end of the year, the overall implementation rate of audit recommendations stood at 93 per cent. Only two of the recommendations had been open for more than 18 months. Full details of UNOPS audit findings in 2016 are contained in the annual activity report of the Internal Audit and Investigations Group of UNOPS (DP/OPS/2017/3).

## C. Results of the United Nations Office for Project Services in 2016

### Highlights

5. The mission of UNOPS is to help people build better lives and to help countries achieve sustainable development. UNOPS is a demand-driven and self-financing organization without any assessed contributions from Member States and relies on the revenue that it earns from the implementation of projects and the provision of high-quality transactional and advisory services.

6. Major operational results in 2016 included the construction, design or rehabilitation of 90 bridges, 3,025 kilometres of road and 2 ports, 50 schools, 74 hospitals and 278 health clinics, and 41 police stations, 3 courthouses and 2 customs and border facilities. UNOPS procured close to 24,000 units of machinery and equipment. Over 47 million medical supplies were handled, including the distribution of nearly 36 million mosquito nets, and over 101 million doses of medicine were procured or distributed. During the course of project implementation, more than 3 million days of paid work for local people were created in 2016, the majority of them generated as part of infrastructure projects, compared with 2.2 million days of paid work in 2015. UNOPS provided over 50,000 days of technical assistance to its partners, up from 44,000 in 2015. In addition, UNOPS helped develop local capacity by supporting more than 10,000 training days. Approximately 55 per cent of all projects supported by UNOPS reported one or more activities that contributed to the development of national capacity. A full account is provided in the annual report of UNOPS (DP/OPS/2017/2).

7. The financial performance of UNOPS in 2016 can be summarized in the following headline figures:

(a) UNOPS maintained the value of the net services it delivered at $1,446 million. The amount comprised $701.1 million in respect of projects delivered on behalf of UNOPS and $744.7 million in respect of projects delivered on behalf of other organizations;

(b) The net surplus for the year was $31.3 million;

(c) The reserves at year-end stood at $131.6 million, exceeding the minimum threshold established by the Executive Board. This figure was derived after taking into account the impact of actuarial loss on post-employment benefits and the fair value gains on financial instruments held as available for sale,

amounting to $2.0 million and $3.1 million, respectively, recognized in the statement of changes in net assets.

8. Such solid financial results place UNOPS in a position of strength to respond to the requests of its partners, to focus on identifying the relevant talents and skills in support of their growing requirements and to help them to succeed by achieving outstanding results.

**Financial statements prepared in accordance with the International Public Sector Accounting Standards**

9. In accordance with IPSAS, a complete set of financial statements has been prepared, as follows:

(a) *Statement of financial position*. This statement shows the financial status of UNOPS as at 31 December 2016 by reporting the overall value of its assets and liabilities. It provides information about the extent to which resources are available for UNOPS to continue delivering partner services in the future;

(b) *Statement of financial performance*. This statement measures the net surplus or deficit as the difference between revenues and the corresponding expenses incurred. The net surplus or deficit is a useful measure of the overall financial performance of UNOPS and indicates whether the organization achieved its self-financing objective for the period;

(c) *Statement of changes in net assets*. This statement reports all changes in the value of assets and liabilities, including those excluded from the statement of financial performance, for example, actuarial adjustments to employee liabilities and fair value adjustment on available-for-sale financial instruments;

(d) *Statement of cash flows*. This statement reflects the changes in the cash position of UNOPS by reporting the net movement of cash, classified by operating and investing activities. The ability of UNOPS to generate cash liquidity is an important aspect in assessing its financial resilience. For a more complete picture of the organization's ability to draw upon its cash balances, investments also need to be taken into account;

(e) *Statement of comparison of budget and actual amounts*. This statement compares the actual operational result with the main budget previously approved by the Executive Board.

10. The financial statements are supported by notes that assist users in understanding UNOPS and comparing it with other entities. The notes include UNOPS accounting policies and other additional information and explanations.

**Financial performance**

11. In 2016, the net delivery of services of UNOPS amounted to $1,446 million, consisting of services delivered on behalf of UNOPS and services delivered on behalf of its partners. This illustrates the total volume of resources handled by UNOPS during the year, which remained at approximately the same level as in 2015.

12. In 2016, total revenue, representing the actual income attributable to UNOPS, amounted to $789.9 million, as reported in the statement of financial performance. This figure represents an increase of 15.6 per cent compared with 2015 ($683.3 million). The increase was due mainly to changes in the composition of delivery on behalf of UNOPS and on behalf of other organizations.

13. For accounting purposes, IPSAS distinguishes between contracts where UNOPS acts as a principal and contracts where it acts as an agent. In other words, where UNOPS delivered services on its own behalf, that is, acted as a principal, the revenue is recognized in full on the statement of financial performance. Where UNOPS delivered services on behalf of its partners, that is, acted as an agent, only the net revenue is reported on the statement.

14. The difference between gross delivery and IPSAS revenue figures consists of $744.7 million in agency contracts, which are "pass-through" transactions, as explained in the notes to the statements. The table below provides a summary of revenue and expenses against the three core services of UNOPS: infrastructure, project management and procurement. The figures are derived from the financial statements that report the same IPSAS figures against the five principal activities (see note 16).

15. After deducting annual expenses and long-term employee liabilities charges, the net surplus for 2016 was $31.3 million, compared with the net surplus for 2015 of $14.3 million.

**Revenue and expenses**

(Millions of United States dollars)

| | *IPSAS revenue* | *Add agency transactions* | *Total gross delivery* |
|---|---|---|---|
| **Revenue** | | | |
| Infrastructure | 192.3 | 1.9 | 194.2 |
| Project management | 543.9 | 536.2 | 1 080.1 |
| Procurement | 51.6 | 206.6 | 258.2 |
| Miscellaneous revenue | 2.1 | – | 2.1 |
| Non-exchange revenue | – | – | – |
| **Total revenue** | **789.9** | **744.7** | **1 534.6** |

| | *IPSAS expenses* | *Add agency transactions* | *Total gross expenses* |
|---|---|---|---|
| **Expenses** | | | |
| Infrastructure | **(178.9)** | **(1.9)** | **(180.8)** |
| Project management | **(480.4)** | **(536.2)** | **(1 016.6)** |
| Procurement | **(41.8)** | **(206.6)** | **(248.5)** |
| **Total project expenses** | **(701.1)** | **(744.7)** | **(1 445.8)** |
| *Less*: UNOPS administrative costs | **(68.7)** | | **(68.7)** |
| **Total expenses** | **(769.8)** | | **(1 514.5)** |
| Surplus from services | 20.1 | | 20.1 |
| *Add*: net financial income | 11.2 | | 11.2 |
| **UNOPS 2016 surplus** | **31.3** | | **31.3** |

**United Nations Office for Project Services delivery and direct support**

16. In 2016, 43 per cent of UNOPS delivery was on behalf of the United Nations system, compared with 50 per cent in the previous year. Trends among United

Nations partners included a fourth consecutive year of increasing delivery on behalf of UNHCR, from $64 million in 2015 to $71 million in 2016. Other strong partnerships included support provided to UNEP, the United Nations Human Settlements Programme and the World Health Organization. The largest United Nations partner was the Secretariat, most significantly the Department of Political Affairs, the Department of Peacekeeping Operations and the Department of Field Support, which together accounted for $294 million, or 21 per cent of implementation expenditure (compared with 18 per cent in 2015). This delivery included providing substantial support for the global peace and security work of the United Nations Mine Action Service. With regard to other notable partnerships, UNOPS work for the European Union increased for a third consecutive year, from $51 million in delivery in 2015 to $57 million in 2016, and the partnership with the Global Fund to Fight AIDS, Tuberculosis and Malaria achieved another record year in 2016.

17. In 2016, the countries to which UNOPS delivered the most support were Myanmar, Somalia, Mali, South Sudan and Afghanistan, in that order. In 2015, they were Myanmar, Afghanistan, Somalia, South Sudan and Peru. A full account is provided in the annual report of UNOPS (DP/OPS/2017/2).

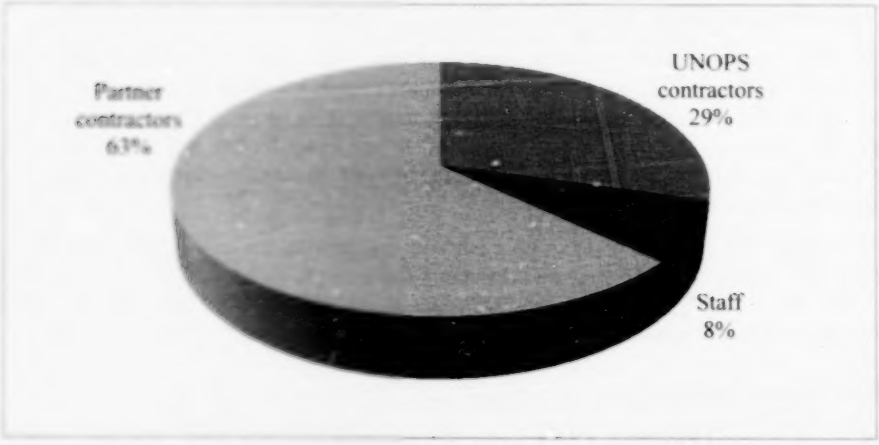
**Assets and liabilities**

18. The statement of financial position is a comprehensive summary of UNOPS assets and liabilities. All UNOPS liabilities and assets are included.

**Personnel and employer benefits**

19. UNOPS has a highly skilled and engaged workforce. At the end of 2016, the number of individuals on UNOPS contracts stood at 10,978, representing an increase compared with 9,852 in 2015. Of those individuals, 843 were staff and 10,135 had individual contractor agreements. UNOPS administers personnel contracts on behalf of a range of partners. In 2016, 6,913 of the total number of individual contractors were partner personnel. This is illustrated in the figure below.

**Status and deployment of individuals on UNOPS contracts**




Source: UNOPS People and Change Practice Group.

20. A survey of UNOPS personnel revealed engagement levels that exceeded internationally recognized benchmarks for high-performing organizations. Out of

more than 2,500 responses, 70 per cent of were favourable, indicating high levels of engagement and intent to stay in the organization.

21. In 2016, UNOPS introduced a new competency framework for recruitment and performance management purposes, providing a standardized approach to performance that enables supervisors to evaluate individuals' integrated knowledge, skills and attributes more effectively.

22. In 2016, 18 per cent of UNOPS senior management in countries in which the organization maintains physical offices were nationals of the duty station country. This represents an increase compared with the figure of 15 per cent recorded in 2015. Senior management is defined as staff employed at grade ICS-11 and above. In 2016, 2,594 UNOPS personnel were based at hardship duty stations (locations rated B to E on the International Civil Service Commission hardship scale).

23. More than 1,950 colleagues benefited from UNOPS learning opportunities in 2016. Eighty per cent of participants rated learning opportunities as "extremely relevant" or "very relevant" to their work. Forty-eight per cent of participants were women. To strengthen health and safety capacity, UNOPS provided training in related disciplines for 379 personnel, 251 of whom obtained certifications from the Institution of Occupational Safety and Health. In addition to mandatory courses on gender awareness and the prevention of harassment, 600 personnel were supported through performance management training and more than 500 received anti-corruption training.

24. As at 31 December 2016, the liability to fund after-service health-care and end-of-service benefits for qualifying staff members stood at $77.1 million. This liability was independently estimated by an actuarial firm. The details of the calculations are contained in note 12. While this amount represents the best estimate of the liability of UNOPS, it remains subject to a degree of uncertainty, which is reported in the sensitivity analysis. In recognition of this uncertainty, the actuarial assumptions will be kept under review and the estimate of the liability will be updated on an annual basis.

**Financial position at the end of 2016**

25. As at 31 December 2016, UNOPS had assets of $1,636.8 million, which more than covered liabilities of $1,505.2 million, leaving net assets of $131.6 million.

26. The most significant assets were cash and investments, which amounted to $1,534.8 million at the end of 2016, compared with $1,376.8 million at the end of 2015. The increase of $158 million is attributable mainly to an increase of $222.2 million in the contributions received from clients for the implementation of projects by UNOPS, as indicated in note 14, and the counteracting decrease in accounts payable by $44 million.

27. About 83 per cent of UNOPS cash and investments reflect contributions that have been received in advance from partners towards the cost of the implementation of the projects. The strong cash position of UNOPS demonstrates that it can continue to fund a similar portfolio of future programmes of work with its partners.

**Operational reserves**

28. As at 31 December 2016, after allowance had been made for all known liabilities, the operational reserves held by UNOPS stood at $131.6 million. Significantly, a $2.0 million actuarial loss pertaining to the valuation of employee benefits at year-end as well as a $3.1 million fair value gain on available-for-sale financial instruments were recognized and have increased the total reserves.

29. On the basis of the minimum operational reserve requirement calculation basis approved by the Executive Board in September 2013, UNOPS was required to maintain, at a minimum, $20.7 million in operational reserves as at 31 December 2016. This is based on the requirement to maintain four months of the average actual management expenses of the previous three years.

**Liquidity**

30. The statement of cash flows shows that cash and cash equivalents held by UNOPS increased by $36.7 million during 2016. UNOPS continues to retain a strong working capital position.

**Budget outcome**

31. IPSAS requires the preparation of a statement of comparison of budget and actual amounts. The statement reports actual revenue and expenses against the Executive Board-approved management budget covering UNOPS administrative costs for the biennium 2016-2017.

32. For 2016, the overall budgetary outcome was positive, with UNOPS achieving a surplus of $20.9 million from its delivery of services, with an additional $10.4 million in finance income. The UNOPS net revenue from management fees, reimbursable services and advisory income totalled $83.2 million in 2016, up by 10 per cent compared with the budgeted revenue target of $75.5 million.

## D. System of internal control and its effectiveness

33. The Executive Director is accountable to the Executive Board for establishing and maintaining the system of internal control that conforms to and complies with the financial regulations and rules of UNOPS.

**Main elements of the system of internal control**

34. The main elements of UNOPS internal control comprise the policies, procedures, standards and activities designed to ensure that all operations are conducted in an economical, efficient and effective manner. They include adherence to United Nations policies established by the General Assembly, the Economic and Social Council, the Executive Board and the Secretary-General; the documentation of processes, instructions and guidance promulgated by the Executive Director through UNOPS organizational directives; the delegation of authority through written instruction; the system of personnel performance management; key controls throughout the UNOPS value chain to address any risks to core activities; and the monitoring and communication of results by both management and the Executive Board.

35. UNOPS management of risk is an integral part of the internal control framework. The Executive Director launched a governance, risk and compliance framework in 2016 to better manage the full range of strategic and operational risks, including the identification, evaluation and measurement of possible impact on UNOPS and the selection and maintenance of solutions to mitigate those risks. The objective of risk management is to strengthen UNOPS foresight and insight, so as to respond proactively to opportunities and threats. Risk management informs the prioritization of strategic alternatives and mitigation measures, particularly in the context of UNOPS strategic alignment and business development. Furthermore, risk management helps to calibrate UNOPS internal controls in response to changes in the business and operating environments.

36. As part of the continuous risk management process, UNOPS has implemented a mandatory review process to be carried out when it is involved in the construction of buildings and other infrastructures. The UNOPS Design Planning Manual for Buildings and the manual covering transport-related infrastructures were issued in 2015, together with related guidance materials. These will assist in mitigating UNOPS exposure to infrastructure-related risks.

**Effectiveness of the system of internal control**

37. The UNOPS system of internal control is a continuous process designed to guide, manage and monitor UNOPS core activities. As a result, the system can only provide a reasonable, but not absolute, assurance of effectiveness. Similarly, risks can never be entirely eliminated; however, internal controls help to reduce the likelihood of failure in achieving the expected results and objectives. The Executive Director has therefore reviewed the effectiveness of the system, as reinforced by the UNOPS risk management processes. The review was informed by regular meetings of the Executive Director with major elements of the governance arrangements, including the Executive Board, the Strategy and Audit Advisory Committee, the Audit Advisory Subcommittee, the Director of the Internal Audit and Investigations Group, the Ethics Officer, the Legislative Framework Committee and the Board of Auditors. She also took into account the views of senior managers and staff at Headquarters and in the field, as well as those of partners and key stakeholders. On the basis of her review, she provided a reasonable, but not absolute, assurance of the effectiveness of the internal control system and confirmed that she was not aware of any significant issues.

38. In 2016, UNOPS implemented a new enterprise resource planning system, designed to better integrate operational processes and systems. The new system increases the quality of information for management decision-making and enables UNOPS to provide more efficient operational support to partners. The system is a vital element of the continued efforts to optimize UNOPS risk management systems and systematically reinforce internal controls, segregation of duties and compliance. The enterprise resource planning system went live on 1 January 2016.

## E. Looking ahead

**Strategic plan for 2014-2017**

39. The Executive Board approved the strategic plan of UNOPS at its annual meeting held in June 2013. The plan was developed after extensive consultation with the majority of UNOPS stakeholders and partners. It describes how UNOPS will focus on contributing directly to helping its partners achieve results through its three delivery practices: project management, procurement and infrastructure. UNOPS will also scale up its ability to address partner demands for the strengthening of national capacity and for advisory services aligned with its core delivery. In September 2017, the UNOPS strategic plan for 2018-2021 will be presented to the Executive Board. The new strategic plan will build on the UNOPS midterm review.[20]

**UNOPS financial viability**

40. The UNOPS finance team has assessed the capability and resilience of UNOPS to continue operating at its current level of activity throughout 2017 and beyond. The assessment included a review of the financial activities in the first quarter of

[20] DP/OPS/2016/5.

2017, overall performance in the first three years of the strategic plan for 2014-2017, the UNOPS forward order book, the levels of cash and operational reserves and the core investments to be made under the strategic plan for 2014-2017. Furthermore, a review of relevant General Assembly resolutions issued in 2016 was undertaken. On the basis of the analysis, it is the view of the Executive Director that UNOPS is confident in its ability to remain in operation for many years to come. Accordingly, the 2016 financial statements have been prepared on a going-concern basis.

# Chapter IV
# Financial statements for the period ended 31 December 2016

## United Nations Office for Project Services

### I. Statement of financial position as at 31 December 2016

(Thousands of United States dollars)

| | *Reference* | *31 December 2016* | *31 December 2015* |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | Note 6 | 2 270 | 2 714 |
| Property, plant and equipment | Note 5 | 10 635 | 12 629 |
| Long-term investments | Note 9 | 1 122 613 | 347 045 |
| **Total non-current assets** | | **1 135 518** | **362 388** |
| **Current assets** | | | |
| Inventories | Note 7 | 5 343 | 2 630 |
| Accounts receivable | Note 10 | | |
| Project accounts receivable | | 37 168 | 15 107 |
| Prepayments | | 35 638 | 8 125 |
| Other accounts receivable | | 10 967 | 6 672 |
| Short-term investments | Note 9 | 12 764 | 667 070 |
| Cash and cash equivalents | Note 11 | 399 373 | 362 687 |
| **Total current assets** | | **501 253** | **1 062 291** |
| **Total assets** | | **1 636 771** | **1 424 679** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Employee benefits | Note 12 | 77 430 | 71 187 |
| **Total non-current liabilities** | | **77 430** | **71 187** |
| **Current liabilities** | | | |
| Employee benefits | Note 12 | 20 290 | 17 881 |
| Accounts payable and accruals | Note 13 | 131 950 | 175 742 |
| Project cash advances received | Note 14 | | |
| Deferred revenue | | 709 812 | 537 334 |
| Cash held as agent | | 561 807 | 512 130 |
| Short-term provisions | Note 19 | 3 896 | 11 214 |
| **Total current liabilities** | | **1 427 755** | **1 254 301** |
| **Total liabilities** | | **1 505 185** | **1 325 488** |
| **Net assets** | | **131 586** | **99 191** |
| **Reserves** | | | |
| Operational reserves | Note 15 | 131 586 | 99 191 |
| **Total liabilities and reserves** | | **1 636 771** | **1 424 679** |

The accompanying notes are an integral part of the financial statements.

## United Nations Office for Project Services

### II. Statement of financial performance for the period ended 31 December 2016

(Thousands of United States dollars)

| | *Reference* | *31 December 2016* | *31 December 2015* |
|---|---|---|---|
| **Revenue** | Note 16 | | |
| Revenue from project activities | | 787 807 | 680 435 |
| Miscellaneous revenue | | 2 127 | 2 445 |
| Non-exchange revenue | | | 396 |
| **Total revenue** | | **789 934** | **683 276** |
| **Expenses** | | | |
| Contractual services | Note 16 | 268 666 | 229 730 |
| Other personnel costs — other personnel | Note 17 | 188 008 | 156 113 |
| Salaries and other benefits — staff | Note 17 | 131 317 | 137 207 |
| Operational costs | Note 16 | 70 122 | 60 257 |
| Supplies and consumables | | 78 853 | 49 317 |
| Travel | | 29 678 | 24 825 |
| Other expenses | | (882) | 10 191 |
| Depreciation on property, plant and equipment | Note 5 | 3 599 | 3 795 |
| Amortization of intangible assets | Note 6 | 512 | 91 |
| **Total expenses** | | **769 873** | **671 526** |
| Finance income | Note 18 | 13 109 | 2 977 |
| Foreign exchange gains/(losses) | Note 18 | (1 890) | (392) |
| **Net finance income** | | **11 219** | **2 585** |
| **Surplus for the period** | | **31 280** | **14 335** |

The accompanying notes are an integral part of the financial statements.

## United Nations Office for Project Services

### III. Statement of changes in net assets for the period ended 31 December 2016

(Thousands of United States dollars)

| | *Reference* | |
|---|---|---|
| **Opening balance as at 1 January 2015** | Note 15 | **78 519** |
| Adjustment on property, plant & equipment capitalization | | 4 512 |
| **Adjusted opening balance on 1 January 2015** | | **83 031** |
| Actuarial gains/(losses) for the period | | 1 825 |
| Surplus for the period | | 14 335 |
| **Opening balance on 1 January 2016** | Note 15 | **99 191** |
| Actuarial gains/(losses) for the period | | (2 034) |
| Increase in fair value reserve | | 3 149 |
| Surplus for the period | | 31 280 |
| **Closing balance as at 31 December 2016** | Note 15 | **131 586** |

The accompanying notes are an integral part of the financial statements.

## United Nations Office for Project Services

### IV. Statement of cash flows for the period ended 31 December 2016

(Thousands of United States dollars)

| | *Reference* | *31 December 2016* | *31 December 2015* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Surplus for the financial period | | 31 280 | 14 335 |
| **Non-cash movements:** | | | |
| Amortization of intangible assets | Note 6 | 512 | 91 |
| Depreciation of property | Note 5 | 3 599 | 3 795 |
| Finance income | Note 18 | (13 109) | (2 977) |
| Foreign exchange gains | Note 18 | 1 890 | 392 |
| **Net surplus before changes in working capital** | | **24 172** | **15 636** |
| **Changes in working capital** | | | |
| Increase in provision for doubtful debts | Note 10 | 96 | 215 |
| Increase in inventories | Note 7 | (2 713) | 1 103 |
| Increase in accounts receivable | Note 10 | (26 452) | 27 862 |
| Increase in prepayments | Note 10 | (27 513) | 6 043 |
| Increase in employee benefits (net of actuarial gains) | Note 12 | 6 618 | 3 824 |
| Decrease in accounts payable and accruals | Note 13 | (43 792) | 87 793 |
| Increase in project cash advances received | Note 14 | 222 155 | 99 195 |
| Decrease in short-term provisions | Note 19 | (7 318) | 5 839 |
| **Cash flow impact on changes in working capital** | | **121 081** | **231 874** |
| Finance income received on cash and cash equivalents | Note 18 | 24 | 73 |
| **Net cash flows from operating activities** | | **145 277** | **247 583** |
| **Cash flows from investing activities** | | | |
| Acquisitions of intangible assets — net | Note 6 | (68) | (787) |
| Acquisitions of property, plant and equipment — net | Note 5 | (1 605) | (2 440) |
| Proceeds from maturity of investments | Note 9 | 1 692 646 | 846 850 |
| Purchase of investments | Note 9 | (1 806 696) | (911 670) |
| Interest income received on investments | Note 18 | 20 494 | 10 879 |
| Interest allocated to projects | Note 18 | (11 472) | (3 638) |
| **Net cash flows from investing activities** | | **(106 701)** | **(60 806)** |
| *Add*: foreign exchange gains | Note 18 | (1 890) | (392) |
| **Net increase in cash and cash equivalents** | | **36 686** | **186 385** |
| **Cash and cash equivalents at the beginning of the period** | | **362 687** | **176 302** |
| **Cash and cash equivalents at the end of the period** | | **399 373** | **362 687** |

The accompanying notes are an integral part of the financial statements.

## United Nations Office for Project Services

### V. Statement of comparison of budget and actual amounts for the period ended 31 December 2016

(Thousands of United States dollars)

| | Reference | *Biennial 2016-17 management budget*[a] | *2016 management budget* | *2016 management budget* | *2016 actual amounts* | *Difference between final budget and actuals* |
|---|---|---|---|---|---|---|
| | | *Original* | *Original* | *Final* | *Actuals* | |
| **Total revenue for the period** | Note 22 | **138 700** | **69 350** | **75 503** | **83 203** | **7 700** |
| **Expenses** | | | | | | |
| Posts | | 35 100 | 17 550 | 13 618 | 11 750 | (1 868) |
| Common staff costs | | 20 500 | 10 250 | 8 178 | 8 463 | 285 |
| Travel | | 8 800 | 4 400 | 4 042 | 4 124 | 82 |
| Consultants | | 43 000 | 21 500 | 27 156 | 29 641 | 2 485 |
| Operating expenses | | 13 700 | 6 850 | 8 674 | 5 770 | (2 904) |
| Furniture and equipment | | 2 200 | 1 100 | 472 | 1 316 | 844 |
| Reimbursements | | 2 300 | 1 150 | 1 426 | 1 398 | (28) |
| Provisions | | 13 100 | 6 550 | | (149) | (149) |
| **Total expenses for the period** | | **138 700** | **69 350** | **63 566** | **62 313** | **(1 253)** |
| Net finance income/cost | | – | – | – | 10 427 | 10 427 |
| **Surplus/(deficit) for the period** | | – | – | **11 937** | **31 317** | **19 380** |

[a] DP/OPS/2015/5.

The accompanying notes are an integral part of the financial statements.

## United Nations Office for Project Services
## Notes to the 2016 financial statements

### Note 1
### Reporting entity

1. The mission of UNOPS is to expand the capacity of the United Nations system and its partners to implement peacebuilding, humanitarian and development operations that matter for people in need. UNOPS is a self-financing organization, without any assessed contributions from Member States, and relies on the revenue that it earns from project implementation and other services. UNOPS was established as an independent entity on 1 January 1995; its headquarters is located in Copenhagen.

2. UNOPS activities and its management budget are set by its Executive Board. The UNOPS mandate, reconfirmed by the Board in 2010, is to act as a service provider for various actors in the development, humanitarian and peacekeeping arenas, including the United Nations, the agencies funds and programmes of the United Nations system, donor and recipient Governments, intergovernmental organizations, international and regional financial institutions, non-governmental organizations, foundations and the private sector. The role of UNOPS is to be a central resource for the United Nations system in procurement and contract management, as well as in civil works and physical infrastructure development, including the relevant capacity development activities. UNOPS delivers value-added contributions by providing efficient, cost-effective services to development partners in the areas of project management, human resources, financial management and common/shared services. UNOPS follows a results-oriented approach to the services that it provides. It launches and implements new project operations quickly, transparently and in a fully accountable manner. UNOPS customizes its services to individual partners' needs, offering everything from stand-alone solutions to long-term project management. Services include:

(a) Project management: UNOPS is responsible for the delivery of one or more outcomes of projects, where it coordinates all aspects of implementation of the project as principal;

(b) Infrastructure: UNOPS uses its expertise and experience to construct emergency and permanent infrastructure. It remains responsible for the construction works and therefore accounts for these projects as principal;

(c) Procurement: UNOPS uses its procurement network to purchase equipment and supplies on behalf of and on the basis of the specifications of its customers. It does not take ownership of the procured items, as they are delivered directly to the end customer;

(d) Other services: human resources management services include recruitment, appointment and administration of personnel contracts undertaken by UNOPS on behalf of its partners. The appointed individuals do not work under the direction of UNOPS. Another service offered is fund management or administration, whereby UNOPS acts as an agent pursuant to a mandate set by the partner.

3. The accounting for agent and principal transactions is further described in the accounting policy on project accounting.

## Note 2
## Basis for preparation

4. UNOPS financial regulation 23.01 requires the preparation of annual financial statements on an accrual accounting basis in accordance with IPSAS, using the historical cost convention. Where IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard is adopted. The accounting policies have been applied consistently in the preparation and presentation of these financial statements.

5. These financial statements are prepared on the basis that UNOPS is a going concern and will continue in operation and meet its mandate for the foreseeable future.

6. These financial statements are prepared on an accrual basis and cover the period from 1 January to 31 December 2016.

7. There are currently no exposure drafts or standards issued by the IPSAS Board which have any bearing on the financial statements and disclosures of UNOPS for the period ended 31 December 2016.

## Note 3
## Summary of significant accounting policies

8. The principal accounting policies applied in the preparation of these financial statements are set out below.

### (a) Project accounting

9. IPSAS 9: Revenue from exchange transactions distinguishes between a contract where UNOPS acts as a principal and a contract where UNOPS acts as an agent. Therefore, revenue from a project in which UNOPS acts as a principal is recognized in full on the statement of financial performance, while in the case of projects in which UNOPS operates as an agent on behalf of its partners, only the net revenue is reported on the statement of financial performance. Additional information on these agency transactions is provided in note 16. Regardless of the status of UNOPS as principal or agent, all project-related receivables and payables are recognized in the statement of financial position at period-end and reflected in the statement of cash flows. In particular, where UNOPS receives amounts in advance from partners, the excess of cash received over costs and expenses incurred is treated as project cash advances received and reported as a liability; for projects in which the costs incurred exceed the cash received from the client, the balance is reported as a receivable.

### (b) Functional and presentation currency

10. The United States dollar is the functional currency of UNOPS and is the currency of these financial statements. The amounts in the financial statements, schedules and notes are rounded to the nearest thousand United States dollars. Transactions, including non-monetary items, in currencies other than United States dollars are translated into dollars at the United Nations operational rate of exchange on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and unrealized exchange differences (gains and losses) from the translation at period-end are recognized in the statement of financial performance.

**(c) Financial instruments**

11. On 1 January 2016, UNOPS made a change in its accounting policy on investments from "held to maturity" to "available for sale". Initial recognition of assets is measured at fair value plus transaction costs that are directly attributable to their acquisition. An increase or decrease in the principal on United States Treasury inflation-protected securities is recognized through surplus or deficit in the statement of financial performance. For other available-for-sale instruments, their fair value is used for subsequent measurement on the basis of quoted market prices obtained from knowledgeable third parties, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in net assets/equity shall be recognized in surplus or deficit. UNOPS holds its investments in three different portfolios, and the types of securities held in them vary as indicated below:

(a) Working capital (relates to contributions received against projects): United States Treasury inflation-protected securities and United States dollar investment-grade corporate bonds;

(b) Reserves (relates to UNOPS operational reserves): United States Treasury inflation-protected securities, United States dollar investment-grade corporate bonds, euro investment-grade corporate bonds, United States dollar-denominated emerging market debt, high-yield bonds and developed equities;

(c) After-service health insurance (relates to post-employment benefits): United States Treasury inflation-protected securities and United States dollar investment-grade corporate bonds.

12. The interest income earned on investments is measured using the effective interest method.

13. Cash and cash equivalents comprise cash on hand, cash at banks, time deposits and money market funds held with financial institutions where the initial term was less than three months. They are held at nominal value less an allowance for any anticipated losses.

14. Receivables are measured at fair value, that is, original invoice amount less an allowance for uncollectable amounts. This calculation includes amounts relating to retentions for work performed but not yet paid for by the client.

15. Payables are measured at fair value, that is, the amount expected to be paid to discharge the liability, and include project cash advances received.

**(d) Property, plant and equipment**

16. UNOPS recognizes property, plant and equipment at their historical cost less depreciation and impairment losses in line with IPSAS 17: Property, plant and equipment. UNOPS depreciates its property, plant and equipment on a straight-line basis over their estimated useful life with the exception of land and assets under construction, which are not depreciated. Property, plant and equipment are also subject to a systematic annual review to confirm the remaining useful life and to identify any impairment.

17. Individual items of property, plant and equipment are capitalized when their original acquisition value is equal to or greater than the threshold of $2,500 for asset classes except for leasehold improvements, where the applicable threshold is $10,000.

18. The estimated useful life ranges and capitalization thresholds for the various classes of property, plant and equipment are as follows:

Table 1
**Depreciation of property, plant and equipment**

| *Tangible asset class* | *Estimated useful life (years)* | *Capitalization threshold (United States dollars)* |
|---|---|---|
| Land and buildings | 10-40 | 2 500 |
| Vehicles | 5-20 | 2 500 |
| Leasehold improvements | 10 | 10 000 |
| Plant and equipment | 8-10 | 2 500 |
| Communications and information technology equipment | 3-10 | 2 500 |

### (e) Intangible assets

19. UNOPS intangible assets comprise purchased software packages, internally developed software and intangible assets under construction. Annual software licences are expensed and adjusted as necessary for any element of prepayment.

20. Amortization is provided over the estimated useful life of the asset using the straight-line method. The estimated useful life for intangible asset classes is as follows:

Table 2
**Amortization of intangible assets**

| *Intangible asset class* | *Estimated useful life (years)* | *Capitalization threshold (United States dollars)* |
|---|---|---|
| Internally developed software | 6 | 100 000 |
| Software acquired | 3 | 2 500 |

21. Intangible assets are subject to an annual review to confirm the remaining useful life and to identify any impairment.

### (f) Inventories

22. Bulk raw materials purchased in advance for the implementation of projects and supplies on hand at the end of the financial period are recorded as inventories. The inventories are valued at the lower of cost and net realizable value. Cost is estimated using the "first in, first out" method.

### (g) Leases

23. UNOPS has reviewed the property and equipment that it leases, and in no instances does it have a significant portion of the risks and rewards of ownership. Accordingly, all leases are recognized as operating leases.

24. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease. A provision is established to cover the cost of making good dilapidations on leasehold properties where required to do so under the terms of the lease.

### (h) Employee benefits

25. UNOPS recognizes the following categories of employee benefits:

(a) Short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service;

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination indemnity.

*Short-term employee benefits*

26. Short-term employee benefits comprise salaries, the current portion of home leave, annual leave and those elements of other employee benefits (including assignment grant, education grant and rental subsidy) payable within one year of period-end and measured at their nominal values.

*Post-employment benefits*

27. UNOPS is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

28. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNOPS and the Pension Fund, in line with the other organizations participating in the Fund, are not in a position to identify the proportionate share of UNOPS of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNOPS has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The actuarial valuations are carried out using the projected unit credit method. UNOPS recognizes actuarial gains and losses in the period in which they occur directly in net assets/equity.

29. UNOPS contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

*Other long-term employee benefits*

30. Long-term employee benefits comprise the non-current portion of home leave entitlements.

*Termination benefits*

31. Termination benefits are recognized as an expense only when UNOPS is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted.

**(i) Provisions and contingencies**

32. Provisions are made for future liabilities and charges where UNOPS has a present legal or constructive obligation as a result of past events and it is probable

that UNOPS will be required to settle the obligation. This, for example, includes those cases where the anticipated cost of completing a construction project is likely to exceed the recoverable amount.

33. Other material commitments that do not meet the recognition criteria for liabilities are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNOPS.

**(j) Revenue**

34. UNOPS recognizes revenue under exchange transactions, including, but not limited to, construction projects, implementation projects and service projects, and non-exchange transactions.

35. Where the outcome of a project can be reliably measured, revenue from construction projects (IPSAS 11: Construction contracts) and other exchange transactions (IPSAS 9) is recognized by reference to the stage of completion of the project at period-end, as measured by the proportion of costs incurred for work to date to the estimated total project costs. Where the outcome of the project cannot be estimated reliably, revenue is recognized to the extent that it is probable that incurred costs will be recovered.

36. Although UNOPS does not receive any voluntary or assessed contributions from Member States, occasional non-exchange revenue arises, most often in relation to donations and services in kind (IPSAS 23: Revenue from non-exchange transactions). Non-exchange transactions are measured at fair value and disclosed by way of notes to the financial statements. UNOPS has elected not to recognize services in kind in the statement of financial performance, but to disclose the most significant in-kind services in the notes to these financial statements.

**(k) Expenses**

37. UNOPS expenses are accounted for on an accrual basis. Expenses are recognized on the basis of the delivery principle, that is, the fulfilment of a contractual obligation by the supplier when the goods are received or when a service is rendered, or when there is an increase in a liability or a decrease in an asset. The recognition of the expense is therefore not linked to when cash or its equivalent is paid.

**(l) Taxation**

38. UNOPS enjoys privileged tax exemption, and its assets, income and other property are exempt from all direct taxation. Accordingly, no provision is made for any tax liability.

**(m) Net assets/equity**

39. Net assets/equity is the standard term used in IPSAS to refer to the residual financial position (assets less liabilities) at period-end, comprising contributed capital, accumulated surpluses and deficits, and reserves. Net assets/equity may be positive or negative.

40. In the absence of any capital contributions, UNOPS net assets are represented by the operational reserves. These comprise the accumulated surplus and the actuarial gains or losses in respect of post-employment benefits.

**(n) Segment reporting**

41. A segment is a distinguishable activity or group of activities for which it is appropriate to report financial information separately. At UNOPS, segment information is based on the principal activities relating to its separate operational centres and its headquarters. This is also the manner in which UNOPS measures its activities and financial information is reported to the Executive Director.

**(o) Budget comparison**

42. The Executive Board approves the biennial budget estimates and, in particular, the net revenue target calculated on an accrual basis. Budgets may be subsequently amended by the Board or through the exercise of delegated authority by the Executive Director to redeploy funds within the approved biennial administrative budget, as well as to increase or reduce funds, provided that the net revenue target for the biennium as established by the Board remains unchanged.

43. The budget and financial statements of UNOPS are prepared on an accrual basis. In the statement of financial performance, expenses are classified according to their nature. In the approved management budget, expenses are classified by cost components or the source of funding against which the expenses will be charged. As required under IPSAS 24: Presentation of budget information in financial statements, the approved budget is reconciled with the actual amounts presented in the financial statements, quantifying differences in accounting bases and classification.

**(p) Critical accounting estimates and judgments**

44. The preparation of financial statements in accordance with IPSAS necessarily includes the use of accounting estimates, management assumptions and judgments. The areas where estimates, assumptions or judgments are significant to UNOPS financial statements include, but are not limited to, post-employment benefit obligations; provisions; and revenue recognition. Actual results could differ from the amounts estimated in these financial statements.

45. Estimates, assumptions and judgments are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. They are subject to continual review.

*Post-employment benefits and other long-term employee benefits*

46. The present value of the employee benefits obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Actuarial assumptions are established to anticipate future events and are used in calculating post-employment benefits and other long-term employee benefits. Note 12 records the assumptions made during the calculation and a sensitivity analysis of the assumptions.

*Provisions*

47. Significant judgment is required in the estimation of present obligations that arise from past events, including legal claims and onerous contracts. These judgments are based on prior UNOPS experience with such issues and are the best current estimate of the liability. Management believes that the total provisions for legal matters are adequate, on the basis of currently available information. Additional information is disclosed in notes 19 and 20.

*Allowances for doubtful accounts receivable*

48. UNOPS has provisions for doubtful receivables, which are detailed in note 10. Such estimates are based on analysis of ageing of customer balances, specific credit circumstances, historical trends and UNOPS experience, also taking into account economic conditions. Management believes that the impairment allowances for these doubtful debts are adequate, on the basis of currently available information. As these doubtful debt allowances are based on management estimates, they may be subject to change as better information becomes available.

*Revenue recognition*

49. Revenue from exchange transactions is measured according to the stage of completion of the contract. The measurement requires an estimate of costs incurred but not yet paid for, and total project costs. The estimates are prepared by technically qualified staff and advisers, which reduces, but does not eliminate, uncertainty.

**Note 4**
**Financial risk management**

50. UNOPS has instituted prudent risk management policies and procedures in accordance with its financial regulations and rules. UNOPS is exposed to a variety of market risks, including, but not limited to, currency risk, credit risk and interest rate risk. The UNOPS approach to risk management is summarized in the section on internal control (chap. III, sect. D) of the Executive Director's statement accompanying these financial statements.

51. UNOPS has outsourced both investment management and custodianship to professional entities selected through its procurement process. Investments in marketable securities are registered in the name of UNOPS, and investments in any pooled funds are in the name of the fund manager. In both scenarios, the marketable securities and the units in pooled funds are held by the custodian appointed by UNOPS.

52. The principal objectives of the investment guidelines are:

(a) Working capital: preserve the value of project-related funds in real terms to ensure the funding of UNOPS projects;

(b) Reserves: provide security and liquidity in adverse circumstances, and support the long-term operations of UNOPS;

(c) Health care: provide for the after-service health-care benefits of the employees of UNOPS by managing assets in relation to relevant liabilities.

53. The allocation of UNOPS portfolios between asset classes, currencies or geographies shall comply with the following guiding principles:

(a) Preservation of capital in real terms is the primary objective;

(b) Liquidity is a key consideration in the management of the UNOPS portfolios and a requirement of the financial regulations and rules, more specifically rules 22.02 and 22.06;

(c) The return obtained in the portfolios is less important than capital preservation and liquidity considerations;

(d) Diversification (across asset classes, strategies, geographies, currencies and financial instruments) reduces risk;

(e) Risks should be taken only when there is an expected return, i.e., unrewarded risks are to be avoided;

(f) Fixed income is a core asset class for UNOPS, given the mission and objectives of the portfolios for which it is responsible;

(g) Currency allocation ranges shall be in line with the objectives and liabilities of the various portfolios, but will not hedge exposure to foreign currencies in portfolios.

54. The UNOPS Investment Committee is an independent investment advisory body assisting the UNOPS Executive Board in its management and oversight of UNOPS assets, including the selection and review of asset managers and custodians.

**Currency risk**

55. UNOPS receives contributions from funding sources and clients in currencies other than the United States dollar and is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. UNOPS also makes payments in currencies other than the United States dollar. The main foreign currency exposure is with regard to the euro, owing to partner reporting requirements.

56. While currency risk is closely monitored by management, for example, through the close monitoring of the level of cash balance in local currency bank accounts and the maintenance of bank balances in the same currency as that of the payments to be made to vendors in the case of UNWebBuy procurement, UNOPS uses no hedging instruments to hedge currency risk exposures.

57. The table below shows, as at 31 December 2016, the impact on surplus for the year if the major currencies weakened/strengthened by 10 per cent, which is management's upper estimate of possible movements in the exchange rates against the United States dollar, with all other variables held constant.

Table 3
**Impact of currency risk on surplus**

| | *EUR* | *ARS* | *RSD* | *NPR* | *UYU* | *JOD* | *JPY* | *GTQ* | *ETB* | *HTG* |
|---|---|---|---|---|---|---|---|---|---|---|
| +10 per cent | 10 688 | 5 790 | 403 | (294) | 247 | 246 | 211 | 202 | 165 | 159 |
| -10 per cent | (10 688) | (5 790) | (403) | 294 | (247) | (246) | (211) | (202) | (165) | (159) |

*Abbreviations*: ARS, Argentine peso; ETB, Ethiopian birr; EUR, euro; GTQ, Guatemalan quetzal; HTG, Haitian gourde; JOD, Jordanian dinar; JPY, Japanese yen; NPR, Nepalese rupee; RSD, Serbian dinar; UYU, Uruguayan peso.

58. The above-mentioned sensitivities are calculated with reference to a single moment in time and are subject to change owing to a number of factors, including fluctuating trade receivable and trade payable balances, and fluctuating cash balances.

59. As the sensitivities are limited to period-end financial instrument balances, they do not take account of sales and operating costs, which are highly sensitive to changes in commodity prices and exchange rates. In addition, each of the sensitivities is calculated in isolation, while in reality, commodity prices, interest rates and foreign currencies do not move independently.

60. The following assumptions are made in calculating the sensitivity: all income statement sensitivities also affect equity; and the sensitivity analysis disclosure relates to material cash and receivable and payable balances at year-end.

### Credit risk

61. UNOPS has considerable cash reserves, as project funding is received in advance of project execution. The resulting cash reserves are invested in an investment portfolio, which is essentially composed of high-quality government bonds and United States dollar-denominated investment-grade corporate bonds. The management of the portfolio is entrusted to an external investment manager.

62. UNOPS investment guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies set out in the guidelines include conservative minimum credit criteria of investment grade for all issuers with maturity and counterparty limits by credit rating. The investment guidelines require continuing monitoring of issuer and counterparty credit ratings. Permissible investments are limited to fixed-income instruments of sovereign, supranational, governmental or federal agencies and banks.

63. UNOPS implements projects worldwide and in post-conflict and rural areas. Given the conditions and areas in which these projects are implemented, some banks are not rated by reference to external credit ratings.

### Interest rate risk

64. UNOPS is exposed to interest rate risk on its interest-bearing assets. Owing to the relatively short average maturity of a significant portion of the UNOPS investment portfolio, an interest sensitivity analysis related to these investments would not disclose significant variations in value. The UNOPS Investment Committee regularly monitors the rate of return on the investment portfolio in comparison with the benchmarks specified in the investment guidelines.

65. UNOPS uses no hedging instruments to hedge interest rate risk exposures.

### Liquidity risk

66. Investments are made with due consideration to UNOPS cash requirements for operating purposes based on cash flow forecasting. The investment approach includes a consideration for investment maturity structuring that takes into account the timing of future funding needs of the organization. UNOPS maintains an adequate portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

## Note 5
## Property, plant and equipment

67. At 31 December 2016, the net book value of UNOPS property, plant and equipment was $10.3 million. UNOPS also held $56.0 million ($45.8 million in 2015) worth of assets as a custodian under service concession arrangements.

68. The table below summarizes property, plant and equipment held by UNOPS as at 31 December 2016 under each of the classes referred to in note 3.

Table 4
**Property, plant and equipment by class**
(Thousands of United States dollars)

| | *Administrative budget* | *Project* | *Total* |
|---|---|---|---|
| Vehicles | 1 159 | 3 375 | 4 534 |
| Land and buildings | 2 574 | 92 | 2 666 |
| Plant and equipment | 490 | 821 | 1 311 |
| Communications and information technology equipment | 994 | 218 | 1 212 |
| Leasehold improvements | 260 | 354 | 614 |
| **Net carrying amounts as at 31 December 2016** | **5 477** | **4 860** | **10 337** |

Table 5
**Property, plant and equipment by class — 2015 comparatives**
(Thousands of United States dollars)

| | *Administrative budget* | *Project* | *Total* |
|---|---|---|---|
| Vehicles | 1 302 | 3 248 | 4 550 |
| Land and buildings | 2 863 | 214 | 3 077 |
| Plant and equipment | 491 | 2 441 | 2 932 |
| Communications and information technology equipment | 1 218 | 178 | 1 396 |
| Leasehold improvements | 273 | 401 | 674 |
| **Net carrying amounts as at 31 December 2015** | **6 147** | **6 482** | **12 629** |

69. At year-end, in addition to the above-mentioned capitalized assets, there were assets in transit valued at $0.298 million.

70. The table below shows the movement in property, plant and equipment held by UNOPS during the period.

Table 6
**Movement in property, plant and equipment**
(Thousands of United States dollars)

| | *Vehicles* | *Plant and equipment* | *Land and buildings* | *Communications and information technology equipment* | *Leasehold improvements* | *Total* |
|---|---|---|---|---|---|---|
| **Gross carrying amounts as at 1 January 2016** | **14 787** | **4 625** | **4 950** | **4 198** | **805** | **29 365** |
| Additions | 1 288 | 94 | 69 | 560 | 21 | 2 032 |
| Cost adjustments | 1 239 | 167 | 22 | 237 | – | 1 665 |
| Disposals | (1 356) | (2 074) | (156) | (439) | – | (4 025) |
| **Gross carrying amounts as at 31 December 2016** | **15 958** | **2 812** | **4 885** | **4 556** | **826** | **29 037** |
| Accumulated depreciation and impairment as at 1 January 2016 | (10 237) | (1 693) | (1 874) | (2 802) | (130) | (16 736) |
| Adjustment to accumulated depreciation on cost adjustment | (359) | (57) | (6) | (69) | – | (491) |
| Depreciation | (1 884) | (344) | (396) | (893) | (82) | (3 599) |

| | *Vehicles* | *Plant and equipment* | *Land and buildings* | *Communications and information technology equipment* | *Leasehold improvements* | *Total* |
|---|---|---|---|---|---|---|
| Removal of depreciation on asset disposal | 1 056 | 593 | 57 | 420 | – | 2 126 |
| **Accumulated amortization and impairment as at 31 December 2016** | **(11 424)** | **(1 501)** | **(2 219)** | **(3 344)** | **(212)** | **(18 700)** |
| **Net carrying amounts as at 31 December 2016** | **4 534** | **1 311** | **2 666** | **1 212** | **614** | **10 337** |

## Note 6
## Intangible assets

Table 7
**Intangible assets**

(Thousands of United States dollars)

| | *Internally generated computer software* | *Other computer software* | *Intangible assets under construction* | *Total* |
|---|---|---|---|---|
| **Gross carrying amounts as at 1 January 2016** | **147** | **226** | **2 609** | **2 982** |
| Additions | 2 609 | 68 | (2 609) | 68 |
| Disposals | | | | |
| **Gross carrying amounts as at 31 December 2016** | **2 756** | **294** | **–** | **3 050** |
| **Accumulated amortization and impairment as at 1 January 2016** | **(87)** | **(181)** | **–** | **(268)** |
| Amortization | (459) | (53) | – | (512) |
| Removal of amortization on asset disposal | | | | |
| **Accumulated amortization and impairment as at 31 December 2016** | **(546)** | **(234)** | **–** | **(780)** |
| **Net carrying amounts as at 31 December 2016** | **2 210** | **60** | **–** | **2 270** |

Table 8
**Intangible assets — 2015 comparatives**

(Thousands of United States dollars)

| | *Internally generated computer software* | *Other computer software* | *Intangible assets under construction* | *Total* |
|---|---|---|---|---|
| **Gross carrying amounts as at 1 January 2015** | **147** | **267** | **1 823** | **2 237** |
| Additions | – | 29 | 1 049 | 1 078 |
| Disposals | – | (70) | (263) | (333) |
| **Gross carrying amounts as at 31 December 2015** | **147** | **226** | **2 609** | **2 982** |
| **Accumulated amortization and impairment as at 1 January 2015** | **(63)** | **(156)** | **–** | **(219)** |
| Amortization | (24) | (67) | – | (91) |
| Removal of amortization on asset disposal | – | 42 | – | 42 |
| **Accumulated amortization and impairment as at 31 December 2015** | **(87)** | **(181)** | **–** | **(268)** |
| **Net carrying amounts as at 31 December 2015** | **60** | **45** | **2 609** | **2 714** |

71. The gross carrying value of intangible assets amounted to $2.270 million at year-end, which includes internally developed computer software, other computer software (acquired) and intangible assets under construction.

72. Internally developed software relates to the development of the UNOPS management workspace, which creates a unified reporting platform for all business areas (including finance, human resources, procurement, project management, and results and performance management) and the development cost of phase 1 of oneUNOPS, which was launched on 1 January 2016.

## Note 7
## Inventories

73. Inventories consist mainly of bulk raw materials purchased in advance in relation to projects and supplies on hand. The table below shows the total value of inventories, as presented in the statement of financial position. The carrying amount of inventories is shown by UNOPS operations centre.

Table 9
**Inventories**
(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Inventories | 5 343 | 2 630 |

Table 10
**UNOPS offices holding inventories**
(Thousands of United States dollars)

| | *31 December 2016* | *31 December 2015* |
|---|---|---|
| Afghanistan | 35 | 63 |
| Democratic Republic of the Congo | 156 | 413 |
| Côte d'Ivoire | – | 12 |
| Ethiopia | – | 156 |
| Haiti | 11 | 200 |
| Peace and Security Cluster | 4 773 | 1 734 |
| Senegal | 11 | – |
| Sierra Leone | 343 | – |
| Sri Lanka | 14 | 52 |
| **Total** | **5 343** | **2 630** |